JSC "National Company "KazMunayGas"

Consolidated financial statements

For the year ended December 31, 2014 with independent auditors' report

CONTENTS

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Independent auditors' report

To the Shareholder and Management of "National Company "KazMunayGas" JSC:

We have audited the accompanying consolidated financial statements of "National Company "KazMunayGas" JSC and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management of the Group is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or errors.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of "National Company "KazMunayGas" JSC and its subsidiaries as at December 31, 2014 and their consolidated financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLP

Alexandr Nazarkulov Auditor	Evgeny Zhemaletdinov General Director Ernst and Young LLP
Auditor qualification certificate No. МФ-0000059 dated January 6, 2012	State audit license for audit activities on the territory of the Republic of Kazakhstan: series МФЮ-2 No. 0000003 issued by the Ministry of finance of the Republic of Kazakhstan on July 15, 2005

March 13, 2015

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

In thousands of tenge	Note	As at December 31 2014	2013*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**4,296,118,047**	3,747,999,966
Exploration and evaluation assets	8	**277,064,868**	221,699,938
Investment property	9	**27,197,634**	28,243,320
Intangible assets	10	**182,966,270**	200,442,883
Long-term bank deposits	11	**97,524,249**	81,935,736
Investments in joint ventures and associates	12	**1,217,661,400**	998,490,176
Deferred income tax assets	31	**93,131,484**	29,688,534
VAT receivable		**79,168,765**	18,921,820
Advances for non-current assets		**100,705,148**	84,500,167
Bonds receivable from the Parent Company	32	**37,145,896**	36,922,676
Note receivable from a shareholder of a joint venture	13	**13,807,568**	13,222,376
Note receivable from associate	32	**28,237,627**	22,411,853
Loans due from related parties		**101,900,198**	22,558,713
Other non-current assets		**34,569,632**	28,237,430
		6,587,198,786	5,535,275,588
Current assets			
Inventories	14	**194,960,759**	195,377,825
VAT receivable		**110,052,511**	151,553,582
Income taxes prepaid	31	**42,744,212**	52,345,584
Trade accounts receivable	15	**202,622,353**	284,447,047
Short-term financial assets	16	**728,577,074**	814,592,127
Bonds receivable from the Parent Company	32	**4,440,000**	4,440,000
Note receivable from a shareholder of a joint venture	13	**4,658,127**	3,969,193
Dividends receivable from associate	12	**–**	19,262,694
Derivatives		**6,427,473**	–
Other current assets	15	**98,581,850**	74,084,738
Cash and cash equivalents	17	**823,031,494**	407,326,766
		2,216,095,853	2,007,399,556
Assets classified as held for sale	5	**35,546,227**	15,510,696
		2,251,642,080	2,022,910,252
TOTAL ASSETS		**8,838,840,866**	7,558,185,840

The accounting policies and explanatory notes on pages 10 through 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

In thousands of tenge	Note	As at December 31 2014	2013*
EQUITY AND LIABILITIES			
Equity			
Share capital	18	**557,072,340**	546,485,470
Additional paid-in capital	18	**226,761,347**	19,645,866
Other equity		**2,105,737**	2,185,813
Currency translation reserve	18	**448,739,927**	269,950,758
Retained earnings		**2,627,270,657**	2,611,367,993
Attributable to equity holder of the Parent Company		**3,861,950,008**	3,449,635,900
Non-controlling interest	18	**555,162,424**	586,555,014
Total equity		**4,417,112,432**	4,036,190,914
Non-current liabilities			
Borrowings	19	**2,427,190,567**	2,005,432,081
Payable for the acquisition of additional interest in North Caspian Project	20	**396,345,201**	214,885,792
Provisions	21	**183,530,985**	114,584,815
Deferred income tax liabilities	31	**194,793,626**	157,991,090
Financial guarantee		**9,077,566**	–
Other non-current liabilities		**12,938,824**	13,850,020
		3,223,876,769	2,506,743,798
Current liabilities			
Borrowings	19	**670,529,840**	301,710,769
Provisions	21	**50,329,517**	93,273,602
Income taxes payable	31	**2,250,849**	55,365,055
Trade accounts payable	22	**233,653,734**	225,091,612
Other taxes payable	23	**80,534,178**	109,643,397
Financial guarantee		**755,010**	–
Derivatives		**277,887**	441,058
Payable for the acquisition of additional interest in North Caspian Project	20	**–**	107,443,991
Other current liabilities	22	**147,781,512**	119,197,681
		1,186,112,527	1,012,167,165
Liabilities directly associated with the assets classified as held for sale		**11,739,138**	3,083,963
Total liabilities		**4,421,728,434**	3,521,994,926
TOTAL EQUITY AND LIABILITIES		**8,838,840,866**	7,558,185,840

* *Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2013 and reflect reclassifications made to conform with the presentation in the consolidated statement of financial position as at December 31, 2014.*

Managing director for economics and finance Kassymbek A.M.

Chief accountant Valentinova N.S.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the years ended December 31	
In thousands of tenge	Note	2014	2013* Restated
Revenue	24	**3,186,763,690**	3,247,716,806
Cost of sales	25	**(2,322,161,894)**	(2,347,831,136)
Gross profit		**864,601,796**	899,885,670
General and administrative expenses	26	**(173,720,320)**	(162,176,343)
Transportation and selling expenses	27	**(358,874,273)**	(332,164,322)
Impairment of property, plant and equipment and intangible assets, other than goodwill	28	**(321,205,244)**	(62,482,577)
Impairment of goodwill	10	**(30,744,793)**	–
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		**(3,639,406)**	(4,940,947)
Other operating income		**18,329,825**	30,649,171
Other operating expenses		**(17,711,610)**	(17,195,161)
Operating profit		**(22,964,025)**	351,575,491
Net foreign exchange gain / (loss)		**67,611,458**	(22,208,626)
Finance income	29	**55,490,877**	42,374,342
Finance costs	29	**(202,470,692)**	(171,671,297)
Impairment of investments in joint ventures	12	**(1,034,370)**	–
Impairment of assets classified as held for sale		**(4,992,179)**	–
Share in profit of joint ventures and associates, net	30	**427,857,457**	483,517,390
Profit before income tax		**319,498,526**	683,587,300
Income tax expenses	31	**(117,101,042)**	(193,200,138)
Profit for the year from continuing operations		**202,397,484**	490,387,162
Discontinued operations			
Loss after income tax for the year from discontinued operations	5	**(3,182,392)**	(1,744,975)
Net profit for the year		**199,215,092**	488,642,187

The accounting policies and explanatory notes on pages 10 through 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

In thousands of tenge	Note	For the years ended December 31 2014	2013* Restated
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**209,509,690**	49,338,488
Other comprehensive income to be reclassified to profit or loss in subsequent periods		**209,509,690**	49,338,488
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Re-measurement of actuarial losses on defined benefit plans		**(1,100,442)**	(3,066,496)
Tax effect		**(27,426)**	421,186
Other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(1,127,868)**	(2,645,310)
Other comprehensive income for the year		**208,381,822**	46,693,178
Total comprehensive income for the year, net of tax		**407,596,914**	535,335,365
Net profit for the year attributable to:			
Equity holder of the Parent Company		**207,362,949**	440,955,063
Non-controlling interest		**(8,147,857)**	47,687,124
		199,215,092	488,642,187
Total comprehensive income for the year attributable to:			
Equity holder of the Parent Company		**385,103,657**	486,251,522
Non-controlling interest		**22,493,257**	49,083,843
		407,596,914	535,335,365

* *Certain numbers shown here do not correspond to the consolidated financial statements for the year ended December 31, 2013 and reflect adjustments made, refer to Note 5.*

Managing director for economics and finance ____________ *Kassymbek A.M.*

Chief accountant ____________ *Valentinova N.S.*

CONSOLIDATED STATEMENT OF CASH FLOWS

		For the years ended December 31	
In thousands of tenge	Note	2014	2013* Restated
Cash flows from operating activities:			
Profit before income tax from continuing operations		**319,498,526**	683,587,300
Loss before income tax from discontinued operations	5	**(3,101,537)**	(1,549,184)
Profit before income tax		**316,396,989**	682,038,116
Adjustments for:			
Depreciation, depletion and amortization	36	**211,195,042**	180,622,767
Share in profit of joint ventures and associates, net	30	**(427,857,457)**	(483,517,390)
Finance costs	29	**202,470,692**	171,743,877
Finance income	29	**(55,490,877)**	(42,388,429)
Unrealized (gain) / loss from derivatives on petroleum products	25	**(6,621,755)**	675,161
Realized gains from derivatives on petroleum products	25	**(2,618,352)**	(2,185,519)
Loss on disposal of property, plant and equipment, intangible assets and investment property, net		**3,639,406**	4,940,947
Impairment of property, plant and equipment and intangible assets *other than goodwill*	28	***321,205,244***	*62,482,577*
Impairment of investments in joint ventures	12	**1,034,370**	–
Impairment of goodwill	10	**30,744,793**	–
Impairment of assets classified as held for sale		**4,992,179**	–
Provisions		**470,260**	9,936,903
Allowance for impairment of trade accounts receivable and other current assets	26	**1,306,152**	3,533,899
Provision for obsolete inventory	26	**(1,517,304)**	1,355,756
Forfeiture of share based payments		**(80,076)**	25,867
Unrealized foreign exchange (gain) / loss		**(107,906,526)**	15,605,299
Operating profit before working capital changes		**491,362,780**	604,869,831
Change in inventory		**26,102,234**	(2,416,525)
Change in VAT receivable		**(8,742,624)**	(38,610,356)
Change in trade accounts receivable		**104,263,617**	(68,694,161)
Change in other current assets		**(27,235,502)**	65,418,351
Change in other taxes payable		**(29,109,219)**	208,390
Change in trade accounts payable		**(3,336,984)**	14,537,267
Change in other non-current assets		**(984,571)**	2,109,672
Change in other liabilities		**6,048,344**	1,456,824
Cash generated from operations		**558,368,075**	578,879,293
Cash received from derivatives, net		**2,328,788**	–
Income taxes paid		**(178,584,194)**	(136,127,337)
Interest received		**41,645,502**	33,683,149
Interest paid		**(155,277,014)**	(132,442,421)
Net cash flow from operating activities		**268,481,157**	343,992,684

The accounting policies and explanatory notes on pages 10 through 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

In thousands of tenge	Note	For the years ended December 31 2014	2013* Restated
Cash flows from investing activities:			
Withdrawal / (placement) of bank deposits, net		**224,033,563**	(267,937,850)
Purchase of property, plant and equipment, intangible assets, investment property and exploration and evaluation assets		**(558,885,281)**	(589,790,095)
Proceeds from sale of property, plant and equipment, intangible assets and investment property		**7,280,896**	11,701,790
Proceeds from sale of assets classified as held for sale		**4,016,540**	–
Dividends received from joint ventures and associates, net of income tax		**302,418,013**	370,549,999
Acquisition of and contribution to joint ventures and associates		**(3,234,425)**	(34,200)
Repayment of loan provided to the related parties		**3,093,298**	24,728,274
Proceeds from sale of joint venture		**147,813**	–
Loans provided to related party		**(108,803,459)**	(11,309,069)
Acquisition of a subsidiary	6	**(28,507,982)**	–
Cash of the acquired subsidiary	6	**8,235,554**	–
Cash of subsidiaries classified as assets held for sale		**(2,649,907)**	–
Net cash flow used in investing activities		**(152,855,377)**	(462,091,151)
Cash flows from financing activities:			
Proceeds from borrowings		**682,264,686**	790,901,238
Repayment of borrowings		**(326,531,746)**	(598,401,903)
Dividends paid to non-controlling interest		**(48,203,538)**	(43,105,904)
Dividends paid to the Shareholder	18	**(69,577,485)**	(38,961,363)
Acquisition of treasure shares by subsidiary		**–**	(153,058)
Sponsorship provided based on the Shareholder's order	18	**–**	(2,554,420)
Net cash flow from financing activities		**237,951,917**	107,724,590
Effects of exchange rate changes on cash and cash equivalents		**62,127,031**	2,615,192
Net change in cash and cash equivalents		***415,704,728***	*(7,758,685)*
Cash and cash equivalents at the beginning of the year	17	**407,326,766**	415,085,451
Cash and cash equivalents at the end of the year	17	**823,031,494**	407,326,766

Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2013 and reflect adjustments made, refer to Note 5.

NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE

The following significant non-cash transactions and other transactions were excluded from the consolidated statement of cash flows:

Hedge of losses on translation of borrowings denominated in US Dollar

For the year ended December 31, 2014 the Group utilized hedging of net investments in certain subsidiaries classified as foreign operations against selected borrowings denominated in US Dollar (*Note 19*). Effect of hedging was equal to 311,794,785 thousand tenge which was reclassified from profits and losses to other comprehensive income, under exchange differences on translation of foreign operations (2013: nil).

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

NON-CASH TRANSACTIONS: SUPPLEMENTAL DISCLOSURE (continued)

Financial guarantee

For the year ended December 31, 2014 the Group provided a financial guarantee for the benefit of joint venture to secure its borrowing. At the recognition fair value of the financial guarantee was equal to 9,342,198 thousand tenge (2013: nil) *(Note 12)*.

Contribution of pipelines

In 2014 the Company issued common shares for the total amount of 10,586,870 thousand tenge *(Note 18)* in exchange for gas pipelines with the same fair value received from the Parent Company (2013: 18,724,939 thousand tenge).

Also in 2014 the Group recognized additional paid in capital in the amount of 207,115,481 thousand tenge, which represents the fair value of gas pipelines contributed by the Parent Company on trust management terms (*Note 18*).

Disposal of capitalized amount of improvements made to the gas pipelines held under the Concession Agreement

In 2014 the Concession Agreement with the Government was terminated, and the total amount of capitalised improvements made to the gas pipelines managed under the Concession Agreement were transferred to the Government in the amount of 83,176,883 thousand tenge *(Note 18)*.

Acquisition of subsidiary

In 2014 the Company acquired additional share of interest in KazakhTurkMunai LLP. As the transaction was made in direct participation of the Government, the result of the transaction of 26,916,423 thousand tenge was recognised as distribution to Shareholder *(Note 6)*.

Capitalization of borrowing costs

For the year ended December 31, 2014 the Group capitalized in the carrying amount of property, plant and equipment borrowing costs in the amount of 18,231,016 thousand tenge (2013: 12,253,918 thousand tenge) *(Note 7)*.

Account payable for non-current assets

For the year ended December 31, 2014 accounts payable for purchases of property, plant and equipment decreased by 41,305,706 thousand tenge (2013: 4,706,049 thousand tenge).

Managing director for economics and finance — *Kassymbek A.M.*

Chief accountant — *Valentinova N.S.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2012	**527,760,531**	**19,062,712**	**2,180,382**	**222,112,349**	**2,241,272,475**	**3,012,388,449**	**581,147,319**	**3,593,535,768**
Net profit for the year	–	–	–	–	440,955,063	**440,955,063**	47,687,124	**488,642,187**
Other comprehensive income	–	–	–	47,838,409	(2,541,950)	**45,296,459**	1,396,719	**46,693,178**
Total comprehensive income for the year	–	–	–	**47,838,409**	**438,413,113**	**486,251,522**	**49,083,843**	**535,335,365**
Contribution to share capital (*Note 18*)	18,724,939	–	–	–	–	**18,724,939**	–	**18,724,939**
Dividends (*Note 18*)	–	–	–	–	(38,961,363)	**(38,961,363)**	(43,577,144)	**(82,538,507)**
Transactions with the Parent Company (*Note 18*)	–	583,154	–	–	–	**583,154**	–	**583,154**
Distributions to the Parent Company	–	–	–	–	(29,322,614)	**(29,322,614)**	–	**(29,322,614)**
Recognition of share based payments at subsidiaries	–	–	5,431	–	96,979	**102,410**	(76,543)	**25,867**
Acquisition of treasury shares by subsidiary	–	–	–	–	(130,597)	**(130,597)**	(22,461)	**(153,058)**
As at December 31, 2013	**546,485,470**	**19,645,866**	**2,185,813**	**269,950,758**	**2,611,367,993**	**3,449,635,900**	**586,555,014**	**4,036,190,914**

The accounting policies and explanatory notes on pages 10 through 90 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Attributable to equity holder of the Parent Company							
In thousands of tenge	Share capital	Additional paid-in capital	Other equity	Currency translation reserve	Retained earnings	Total	Non-controlling interest	Total
As at December 31, 2013	**546,485,470**	**19,645,866**	**2,185,813**	**269,950,758**	**2,611,367,993**	**3,449,635,900**	**586,555,014**	**4,036,190,914**
Net profit for the year	–	–	–	–	*207,362,949*	**207,362,949**	*(8,147,857)*	**199,215,092**
Other comprehensive income	–	–	–	178,789,169	(1,048,461)	**177,740,708**	30,641,114	**208,381,822**
Total comprehensive income for the year	–	–	–	**178,789,169**	**206,314,488**	**385,103,657**	**22,493,257**	**407,596,914**
Contribution to share capital (*Note 18*)	10,586,870	207,115,481	–	–	–	**217,702,351**	–	**217,702,351**
Dividends (*Note 18*)	–	–	–	–	(83,114,547)	**(83,114,547)**	(53,891,914)	**(137,006,461)**
Transactions with the Parent Company (*Note 6 and 18*)	–	–	–	–	(26,916,423)	**(26,916,423)**	–	**(26,916,423)**
Distributions to the Parent Company (*Note 18*)	–	–	–	–	(80,363,549)	**(80,363,549)**	–	**(80,363,549)**
Recognition of share based payments at subsidiaries	–	–	(80,076)	–	(19,310)	**(99,386)**	8,072	**(91,314)**
Acquisition of non-controlling interest	–	–	–	–	2,005	**2,005**	(2,005)	**–**
As at December 31, 2014	**557,072,340**	**226,761,347**	**2,105,737**	**448,739,927**	**2,627,270,657**	**3,861,950,008**	**555,162,424**	**4,417,112,432**

Managing director for economics and finance — Kassymbek A.M.

Chief accountant — Valentinova N.S.

The accounting policies and explanatory notes on pages 10 through 90 form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2014

1. GENERAL

JSC "National Company "KazMunayGas" (the "Company" or "KazMunayGas") is a wholly owned state oil and gas enterprise of the Republic of Kazakhstan, which was established on February 27, 2002 as a closed joint stock company pursuant to the Decree No. 811 of the President of the Republic of Kazakhstan dated February 20, 2002 and the Resolution of the Government of the Republic of Kazakhstan (the "Government") No. 248 dated February 25, 2002. The Company was formed as a result of the merger of National Oil and Gas Company Kazakhoil CJSC ("Kazakhoil") and National Company Transport Nefti i Gaza CJSC ("TNG"). As the result of the merger, all assets and liabilities, including ownership interest in all entities owned by these companies, have been transferred to KazMunayGas. The Company was reregistered as a joint stock company in accordance with the legislation of the Republic of Kazakhstan in March 2004.

The sole shareholder of the Company is JSC Sovereign Wealth Fund Samruk-Kazyna (further referred as "Samruk-Kazyna", the "Shareholder" or the "Parent company"). The Government is the sole shareholder of Samruk-Kazyna.

As at December 31, 2014, the Company has an interest in 39 operating companies (2013: 41) (jointly the "Group").

The Company has its registered office in the Republic of Kazakhstan, Astana, Kabanbay Batyr avenue, 19.

The principal objective of the Group includes, but is not limited, to the following:

- participation in the Government activities relating to the oil and gas sector;
- representation of the state interests in subsoil use contracts through interest participation in those contracts; and
- corporate governance and monitoring of exploration, development, production, processing, transportation and sale of hydrocarbons and the designing, construction and maintenance of oil-and-gas pipeline and field infrastructure.

The consolidated financial statements comprise the financial statements of the Company and its controlled subsidiaries (*Note 34*).

These consolidated financial statements of the Group were approved for issue by the Managing director for economics and finance and the Chief accountant on March 13, 2015.

2. BASIS OF PREPARATION

These consolidated financial statements have been prepared on a historical cost basis, except as described in the accounting policies and the notes to these consolidated financial statements. All values in these consolidated financial statements are rounded to the nearest thousands, except when otherwise indicated.

Statement of compliance

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB").

The preparation of the consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Group consolidated financial statements are disclosed in *Note 4*.

2. BASIS OF PREPARATION (continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities included in these consolidated financial statements are measured using the currency of the primary economic environment in which the entities operate ("the functional currency"). The consolidated financial statements are presented in Kazakhstan tenge ("tenge" or "KZT"), which is the Company's functional currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of comprehensive income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time, the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

Group Companies

The results and financial position of all of the Group's subsidiaries, joint ventures and associates (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at that reporting date;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of other comprehensive income.

Exchange rates

Weighted average currency exchange rates established by the Kazakhstan Stock Exchange ("KASE") are used as official currency exchange rates in the Republic of Kazakhstan.

The currency exchange rate of KASE as at December 31, 2014 was 182.35 tenge to 1 US Dollar. This rate was used to translate monetary assets and liabilities denominated in United States Dollars ("US Dollar") as at December 31, 2014 (2013: 153.61 tenge to 1 US Dollar). The currency exchange rate of KASE as at March 13, 2015 was 185.35 tenge to 1 US Dollar.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and amended standards and interpretations

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014.

The nature and the impact of each new standard and amendment is described below:

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 *Consolidated Financial Statements* and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Group, since none of the entities in the Group has any offsetting arrangements.

Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Group as the Group has not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 *Levies* is effective for annual periods beginning on or after January 1, 2014 and is applied retrospectively. It is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 Income Taxes) and fines or other penalties for breaches of legislation.

The interpretation clarifies that an entity recognises a liability for a levy no earlier than when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, no liability is recognised before the specified minimum threshold is reached.

This interpretation has no impact on the Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 in prior years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of December 31, 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. *Specifically, the Group controls an investee if and only if the Group has:*

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and;
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, revenue and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Profit or loss and each component of other comprehensive income are attributable to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in general and administrative expenses.

When the Group acquires a business, it assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income ("OCI"). If the contingent consideration is not within the scope of IAS 39, it is measured in accordance with the appropriate IFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed off in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Business combinations achieved in stages

The acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

In a business combination achieved in stages the acquirer recognises goodwill as of the acquisition date measured as the excess of (a) over (b) below:

(a) the aggregate of:

- (i) the consideration transferred measured in accordance with this IFRS 3 *Business combinations*, which generally requires acquisition-date fair value;
- (ii) the amount of any non-controlling interest in the acquiree measured in accordance with this IFRS; and
- (iii) the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree.

(b) the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Acquisition of subsidiaries in accordance with the Shareholder instructions

In acquisitions of subsidiaries from third parties made in accordance with the Shareholder instructions, the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests, and any previous interest held, over the net identifiable assets acquired and liabilities assumed is recognised directly in equity as a distribution to the Parent Company.

Acquisition of subsidiaries from parties under common control

Acquisitions of subsidiaries from parties under common control are accounted for using the pooling of interest method.

The assets and liabilities of the subsidiary transferred under common control are recorded in the consolidated financial statements at the carrying amounts of the transferring entity (the Predecessor) at the date of the transfer. Related goodwill, if any, inherent in the Predecessor's original acquisition is also recorded in the consolidated financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to equity.

The consolidated financial statements, including corresponding figures, are presented as if the subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Undivided interest in jointly controlled operations

The Group has undivided interest in jointly controlled operations.

Upon acquisition the Group shall recognise in relation to its interest in joint operations its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly. Subsequently, the Group shall recognize its revenue from the sale of its share of the output arising from the joint operations; its share of the revenue from the sale of the output by the joint operations; and its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in the joint operations in accordance with its accounting policy.

When the Group does not share the joint control over joint operations, it follows the accounting of the parties that share control as discussed in next paragraphs.

Investment in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but which does not comprise control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the joint venture or associate, deducted by the amount of dividends declared from joint venture or associate to the Group. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture or associate, the Group recognizes its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the joint venture or associate are eliminated to the extent of the interest in the joint venture or associate.

The aggregate of the Group's share in profit or loss of a joint venture and an associate is shown on the face of the consolidated statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interest in the subsidiaries of the joint venture or associate. The financial statements of the joint venture or associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring their accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture or associate. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Impairment of investment in joint venture or associate' in the statement of profit or loss.

Upon loss of joint control over the joint venture or significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate upon loss of joint control or significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within 12 (twelve) months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 (twelve) months after the reporting period.

All other assets are classified as non-current. A liability is current when:

- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 (twelve) months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 (twelve) months after the reporting period.

The Group classifies all other liabilities as non-current. Deferred tax assets and liabilities are always classified as non-current assets and liabilities.

Oil and natural gas exploration, evaluation and development expenditure

Costs incurred before obtaining subsoil use rights (licenses)

Costs incurred before obtaining full subsoil use rights (licenses) are expensed in the period in which they are incurred, except when costs are incurred after signing preliminary agreements with the Government of the Republic of Kazakhstan, in such cases costs incurred after this date are capitalized.

Subsoil use rights and property acquisition costs

Exploration and production subsoil use rights and related property acquisition costs are capitalized within exploration and evaluation assets and subclassified as intangible assets. Each property under exploration and appraisal is reviewed on an annual basis to confirm that drilling activity is planned and it is not impaired. If no future activity is planned, the carrying amount of the exploration subsoil use right and related property acquisition costs is written off. Upon determination of economically recoverable reserves ('proved reserves' or 'commercial reserves') and internal approval of development, the carrying amount of the subsoil use right and related property acquisition costs held on a field-by-field basis is aggregated with exploration and evaluation assets and transferred to oil and gas development assets.

Exploration and evaluation costs

Once the legal right to explore has been acquired, geological and geophysical exploration costs and costs directly associated with exploration and appraisal wells are capitalized as exploration and evaluation intangible or tangible assets, according to the nature of the costs, until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors. If no reserves are found, the exploration and evaluation asset is tested for impairment, if extractable hydrocarbons are found and, subject to further appraisal activity, which may include the drilling of further wells, are likely to be developed commercially; the costs continue to be carried as an asset while sufficient/continued progress is made in assessing the commerciality of the hydrocarbon reserves. All such carried costs are subject to technical, commercial and management review as well as review for impairment at least once a year to confirm the continued intent to develop or otherwise extract value from the discovery. When this is no longer the case, the assets are written off. When proved reserves of hydrocarbons are determined and development is sanctioned, the relevant expenditure is transferred to oil and gas development assets after impairment is assessed and any resulting impairment loss is recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Oil and natural gas exploration, evaluation and development expenditure (continued)

Development costs

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of development wells, including unsuccessful development or delineation wells and unforeseen technical problems, is capitalized within oil and gas development assets.

Oil and gas assets and other property, plant and equipment

Oil and gas assets and other property, plant and equipment are stated at cost less accumulated depreciation, depletion and impairment ("DD&A").

The initial cost of an asset comprises its purchase price or construction cost, borrowing cost for long-term construction or development project, if recognition criteria is met, any costs directly attributable to bringing the asset into operation and the initial estimate of decommissioning obligation, if there is any. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Oil and gas assets are depreciated using a unit-of-production method, whereas tangible assets are depreciated over proved developed reserves and intangible assets – over proved reserves. Certain oil and gas assets with useful lives less than the remaining life of the fields or term of the subsoil use contract are depreciated on a straight-line basis over useful lives of 4-10 years.

Property, plant and equipment other than oil and gas assets principally comprise buildings, machinery and equipment which are depreciated on a straight-line basis over the expected remaining useful average lives as follows:

Refinery assets	4-100 years
Pipelines	2-30 years
Buildings and improvements	2-100 years
Machinery and equipment	2-30 years
Vehicles	3-35 years
Other	2-20 years

The expected useful lives of property, plant and equipment are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively.

The carrying value of property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

An item of property, plant and equipment, inclusive of production wells which stop producing commercial quantities of hydrocarbons and are scheduled for abandonment, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the period the item is derecognized.

Intangible assets

Intangible assets are stated at cost, less accumulated amortization and accumulated impairment losses. Intangible assets include expenditure on acquiring subsoil use rights for oil and natural gas exploration, evaluation and development, computer software and goodwill. Intangible assets acquired separately from a business are carried initially at cost. The initial cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Intangible assets, except for goodwill and subsoil use rights, are amortized on a straight-line basis over the expected remaining useful life. The expected useful lives of the assets are reviewed on an annual basis and, if necessary, changes in useful lives are accounted for prospectively. Computer software costs have an estimated useful life of 3 to 7 years. The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment annually (as at December 31) and when circumstances indicate that the carrying value may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Investment properties

Investment property is initially measured at cost, including transaction costs. Transaction costs shall be included in the initial measurement.

Since the Group adopted cost model, after initial recognition, investment property is accounted for in accordance with the cost model as set out in IAS 16 Property, Plant and Equipment – cost less accumulated depreciation and less accumulated impairment losses.

The depreciation is calculated based on straight line method basis over the expected remaining useful average life of 2-100 years.

Investment property derecognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Gains or losses arising from the retirement or disposal of investment property shall be determined as the difference between the net disposal proceeds and the carrying amount of investment property and recognised in profit or loss in the period of the retirement or disposal.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of 5 (five) years. For longer periods, a long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of accumulated depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when reclassified to oil and gas development tangible or intangible assets or whenever facts and circumstances indicate impairment. One or more of the following facts and circumstances indicate that the Group should test exploration and evaluation assets for impairment (the list is not exhaustive):

- the period for which the Group entity has the right to explore and appraise in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on the further exploration for and evaluation of hydrocarbon resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of hydrocarbon resources in the specific area have not led to the discovery of commercial viable quantities of hydrocarbon resources and the Group entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Non-current assets held for sale and discontinued operations

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

In the consolidated statement of comprehensive income of the reporting period, and of the comparable period of the previous year, income and expenses from discontinued operations are reported separately from income and expenses from continuing operations, down to the level of profit after taxes, even when the Group retains a non-controlling interest in the subsidiary after the sale. The resulting profit or loss (after taxes) is reported separately in the consolidated statement of comprehensive income.

Property, plant and equipment and intangible assets once classified as held for sale are not depreciated or amortized.

Asset retirement obligation (decommissioning)

Provision for decommissioning is recognized in full, on a discounted cash flow basis, when the Group has an obligation to dismantle and remove a facility or an item of plant, property and equipment and to restore the site on which it is located, and when a reasonable estimate of that provision can be made. The amount recognized is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding item of property, plant and equipment of an amount equivalent to the provision is also created. This asset is subsequently depreciated as part of the capital costs of the production and transportation facilities.

Changes in the measurement of an existing decommissioning provision that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or change in the discount rate, is accounted for so that:

(a) changes in the provision are added to, or deducted from, the cost of the related asset in the current period;

(b) the amount deducted from the cost of the asset shall not exceed its carrying amount. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognized immediately in the consolidated statement of comprehensive income; and

(c) if the adjustment results in an addition to the cost of an asset, the Group considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group tests the asset for impairment by estimating its recoverable amount, and accounts for any impairment loss, in accordance with IAS 36.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial assets are recognized initially at fair value plus, in the case of financial assets not recorded at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset.

The Group financial assets include cash and cash equivalents, short-term bank deposits, bonds receivable from the Parent Company, note receivable from associate, note receivable from a shareholder of a joint venture, loans due from related parties and trade accounts receivable.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the consolidated statement of financial position at fair value with net changes in fair value presented as finance costs or finance income through profit or loss.

The consolidated statement of financial position at fair value with changes in fair value recognized in finance income or finance costs in the consolidated statement of comprehensive income. Financial assets designated upon initial recognition at fair value through profit or loss are designated at their initial recognition date and only if the criteria under IAS 39 is satisfied.

The Group has not designated any financial assets upon initial recognition as at fair value through profit or loss.

The Group evaluated its financial assets held for trading, other than derivatives, to determine whether the intention to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification to loans and receivables, available-for-sale or held to maturity depends on the nature of the asset. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation, these investments cannot reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Re-assessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Subsequent measurement (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment of trade and other receivables are recognized in general and administrative expenses. The losses arising from impairment of loans receivable are recognized in finance costs.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognised in the consolidated statement of comprehensive income as finance costs. The Group did not have any held-to-maturity investments during the years ended December 31, 2014 and 2013.

Available-for-sale financial investments

Available-for-sale financial investments include equity investments and debt securities. Equity investments classified as available-for-sale are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognised in other comprehensive income and credited in the available-for-sale revaluation reserve until the investment is derecognized, at which time the cumulative gain or loss is recognised in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale revaluation reserve to finance costs in the consolidated statement of comprehensive income. Interest earned whilst holding available-for-sale financial investments is reported as finance income using the EIR method.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if the management has the ability and intention to hold the assets for foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognised in equity is amortized to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortized cost and the maturity amount is also amortized over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the consolidated statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Financial assets carried at amortized cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in current period expenses. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the consolidated statement of comprehensive income. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. When there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income – is removed from other comprehensive and recognised in profits or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised in other comprehensive income.

In the case of debt instruments classified as available-for-sale, the impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognised in the consolidated statement of comprehensive income.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the consolidated statement of comprehensive income, the impairment loss is reversed through profits or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value on a first-in first-out ("FIFO") basis. Cost includes all costs incurred in the normal course of business in bringing each product to its present location and condition. The cost of crude oil and refined products is the cost of production, including the appropriate proportion of depreciation, depletion and amortization and overheads based on normal capacity. Net realizable value of crude oil and refined products is based on estimated selling price in the ordinary course of business less any costs expected to be incurred to complete the sale.

Value added tax (VAT)

The tax authorities permit the settlement of VAT on sales and purchases on a net basis. VAT receivable represents VAT on domestic purchases net of VAT on domestic sales. Export sales are zero rated.

Cash and cash equivalents

Cash and cash equivalents include cash in bank and cash on hand, demand deposits with banks with original maturities of 3 (three) months or less.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings, payable for the acquisition of additional interest in North Caspian Project and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in profit or loss.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

Trade and other payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the EIR.

Loans and borrowings

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortized cost using the EIR. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fee or costs that are an integral part of the EIR. The EIR amortization is included in finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 (twelve) months after the reporting date. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of that asset. Other borrowing costs are recognized as an expense when incurred.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognised less cumulative amortisation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Provision for obligations to the Government

The Government assigns various sponsorship and financing obligations to the Group. Management of the Group believes that such Government's assignments represent constructive obligations of the Group and require recognition on the basis of respective resolution of the Government. Furthermore, as the Government is the ultimate controlling party of the Group, the expenditures on these assignments are recognized as other distributions to the Shareholder directly in the equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state - managed retirement benefit schemes are dealt with as defined contribution plans where the Group's obligations under the scheme are equivalent to those arising in a defined contribution retirement benefit plan.

Long-term employee benefits

The Group provides long-term employee benefits to employees before, on and after retirement, in accordance with the collective agreements between the Group entities and their employees. The collective agreement provides for certain one-off retirement payments, financial aid for employees' disability, anniversaries, funeral and other benefits. The entitlement to benefits is usually conditional on the employee remaining in service up to retirement age.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans with defined payments upon the end of employment. Actuarial gains and losses arising in the year are taken to other comprehensive income. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Other movements are recognised in the current period, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are discount rate and mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the consolidated statement of comprehensive income as finance costs. The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued by independent qualified actuaries on an annual basis.

Revenue recognition

Revenue is recognized when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognized:

Sale of goods

Revenue from the sale of crude oil, refined products, gas and other products is recognized when delivery has taken place and risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

Revenue from rendering of services, such as transportation, refining and oil support services, is recognized when the services have been performed.

Interest income

For all financial instruments measured at amortised cost and interest-bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the statement of profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expense recognition

Expenses are recognized as incurred and are reported in the consolidated financial statements in the period to which they relate on an accrual basis.

Income taxes

Income tax for the year comprises current income tax, excess profit tax and deferred tax.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Excess profit tax ("EPT") is treated as an income tax and forms part of income tax expense. In accordance with the applicable tax legislation enacted as of January, 1 2009, the Group accrues and pays EPT in respect of each subsoil use contract, at varying rates based on the ratio of aggregate annual income to deductions for the year for a particular subsoil use contract. The ratio of aggregate annual income to deductions in each tax year triggering the application of EPT is 1.25:1. EPT rates are applied to the part of the taxable income (taxable income after corporate income tax and allowable adjustments) related to each subsoil use contract in excess of 25% of the deductions attributable to each contract.

Deferred tax is calculated with respect to both corporate income tax ("CIT") and EPT. Deferred EPT is calculated on temporary differences for assets allocated to subsoil use contracts at the expected rate of EPT to be paid under the contract.

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the consolidated statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Equity

Non-controlling interest

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity of the Company's owners. Total comprehensive income is attributed to the Company's owners and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Share based payments

Employees of some Group entities receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments of a subsidiary in which they are employed ('equity-settled transactions').

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using an appropriate pricing model.

The cost of equity-settled transactions is recognized, together with a corresponding increase in other equity reserves, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('the vesting date'). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The consolidated statement of comprehensive income charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period.

No expense is recognized for awards that do not ultimately vest.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Dividends

Dividends are recognized as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the consolidated financial statements are authorized for issue.

Other distributions to the Shareholder

Expenditures incurred by the Group based on the respective resolution of the Government or decision and instructions of the Parent Company are accounted for as other distributions through equity. Such expenditures include costs associated with non-core activity of the Group (construction of social assets) and acquisitions of investments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent events

The results of post-year-end events that provide evidence of conditions that existed at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post-year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

Standards issued but not yet effective

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The Group is currently assessing the impact of IFRS 9 and plans to adopt the new standard on the required effective date.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after July 1, 2014. It is not expected that this amendment would be relevant to the Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition

If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IFRS 9 (or IAS 39, as applicable).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2010-2012 Cycle (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarifies that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar';
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

Annual improvements 2011-2013 Cycle

These improvements are effective from July 1, 2014 and are not expected to have a material impact on the Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3;
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2011-2013 Cycle (continued)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate roperty, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after January 1, 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Annual improvements 2012-2014 Cycle

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed. The Group did not early adopt any of these amendments.

IFRS 5 Non-Current Assets Held for Sale and Discontinued

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. The amendment must be applied prospectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards issued but not yet effective (continued)

Annual improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments. The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. The amendment must be applied retrospectively.

IAS 19 Employee Benefits Discount rate: regional market issue

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment must be applied prospectively.

IAS 34 Interim Financial

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).

The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. The amendment must be applied retrospectively.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities and assets, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Oil and gas reserves

Oil and gas reserves are a material factor in the Group's computation of depreciation, depletion and amortization expenses. The Group estimates its oil and gas reserves in accordance with the methodology of the Society of Petroleum Engineers ("SPE"). In estimating its reserves under SPE methodology, the Group uses long-term planning prices. Using planning prices for estimating proved reserves removes the impact of the volatility inherent in using year-end spot prices. Management believes that long-term planning price assumptions, which are also used by management for their business planning and investment decisions are more consistent with the long-term nature of the upstream business and provide the most appropriate basis for estimating oil and gas reserves.

All reserve estimates involve some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Oil and gas reserves (continued)

The relative degree of uncertainty can be conveyed by placing reserves into one of two principal classifications, either proved or unproved. Proved reserves are more certain to be recovered than unproved reserves and may be further sub-classified as developed and undeveloped to denote progressively increasing uncertainty in their recoverability.

Estimates are reviewed and revised annually. Revisions occur due to the evaluation or re-evaluation of already available geological, reservoir or production data, availability of new data, or changes to underlying price assumptions. Reserve estimates may also be revised due to improved recovery projects, changes in production capacity or changes in development strategy. Proved developed reserves are used to calculate the unit of production rates for DD&A in relation to oil and gas production assets. The Group has included in proved reserves only those quantities that are expected to be produced during the initial subsoil use contract period. This is due to the uncertainties surrounding the outcome of such renewal procedures, since the renewal is ultimately at the discretion of the Government. An increase in the Group's subsoil use contract periods and corresponding increase in reported reserves would generally lead to lower DD&A expense and could materially affect earnings. A reduction in proved developed reserves will increase DD&A expense (assuming constant production), reduce income and could also result in an immediate write-down of the property's book value. Given the relatively small number of producing fields, it is possible that any changes in reserve estimates year on year could significantly affect prospective charges for DD&A.

Recoverability of oil and gas assets

The Group assesses assets or CGU for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term oil prices, discount rates, future capital requirements, operating performance (including production and sales volumes) that are subject to risk and uncertainty. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered to be impaired and is written down to its recoverable amount. In assessing recoverable amount the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants and does not reflect the effects of factors that may be specific to the entity and not applicable to entities in general.

An impairment charge of 75 billion Tenge was made in the consolidated financial statements for the year ended December 31, 2012 as a result of a formal assessment of the recoverable amount of KMG EP. The main indicators were the level of production being materially lower than planned in 2010 and 2011 and the increasing levels of operational and capital expenditure.

In 2013, the management updated the formal assessment of the recoverable amount of KMG EP, and an additional impairment charge of 56 billion Tenge was made in the consolidated financial statements for the year ended December 31, 2013. The additional impairment charge related primarily to the increase in export customs duty from 40 US Dollar per ton to 60 US Dollar per ton that occurred on April 12, 2013.

As at December 31, 2014 declining crude oil prices and increases in employee benefit costs and an increase in export customs duty from 60 US Dollar per ton to 80 US Dollar per ton indicated that Group's cash generating units may be impaired. Therefore, for the year ended December 31, 2014 management has carried out a formal assessment of the recoverable amount of its assets. An additional impairment loss of 257 billion Tenge *(Note 7)*, related to KMG EP, was recognized in the consolidated financial statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of oil and gas assets (continued)

The CGU calculates recoverable amount using a discounted cash flow model. The discount rate of 13.09% was derived from the CGU's post-tax weighted average cost of capital. The business plans, which are approved on an annual basis, are the primary source of information. They contain forecasts for crude oil production, sales volumes, revenues, costs and capital expenditure. Various assumptions such as oil prices and cost inflation rates take into account existing prices, foreign exchange rates, other macroeconomic factors and historical trends and variability. The projection of cash flows was limited by the date of license expiry in 2021. Expenditure cash flows up to 2019 were obtained from the CGU's business plan together with management's current assessment of probable changes in operational and capital expenditure. Most of the projections beyond that period were inflated using available inflation estimates, except for capital expenditure projections, which represent management's best available estimate as at the date of impairment assessment.

The key assumptions required for the recoverable amount estimation are the oil prices, production volumes, the foreign exchange rate and discount rate. The sensitivity of the headroom to changes in the key assumptions was estimated.

Brent crude oil price assumptions were based on market expectations together with the expectations of independent industry analysis and research organizations. If Brent crude oil prices had been assumed to be 5% higher than the price assumptions used in the assessment, this would have had the effect of increasing the estimated recoverable amount by almost 37 billion Tenge.

Estimated production volumes are based on the business plan and take into account development plans as part of the long-term planning process. If the production volume were to be reduced by around 5% for the whole period, this would cause almost nil effect.

An assumed KZT/US Dollar exchange rate of 185 was used to convert US Dollar denominated sales based on the business plan. If the KZT/US Dollar exchange rate had been assumed to be 25% higher for the whole period, it would have had the effect of increasing the recoverable amount by 99 billion Tenge.

Recoverability of downstream, refining and other assets

The Group performed its annual impairment test in December 2014 and 2013. The Group considers the forecast refinery margins and production volumes, among other factors, when reviewing for indicators of impairment. Decline in market forecasts indicated a potential impairment of goodwill and assets of refining, downstream and other segments.

The Group has material goodwill related to past acquisitions of Kazmunaigas International N.V. (KMGI) and Pavlodar Oil Chemical Plant JSC ("PNHZ") (*Note 10*).

KMGI has four main CGUs: Refining, Downstream Romania, Dyneff and Other.

Refining, Downstream Romania, Dyneff and Other

As a result of the impairment analysis of the recoverable amount of CGUs an impairment charge of 74,545,805 thousand tenge was recognized in the consolidated financial statements for the year ended December 31, 2014. The impairment charge was allocated to the goodwill (*Note 10*) related to each CGU, and the remaining to property, plant and equipment (*Note 7*) and intangible assets (*Note 10*).

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of downstream, refining and other assets (continued)

Refining, Downstream Romania, Dyneff and Other (continued)

Refining

The recoverable amount of Refining units has been determined based on fair value less costs of disposal, which is the present value of the free cash flows adjusted by the present value of the residual value. The present value of the free cash flows was determined using discounted cash flows from financial budgets approved by senior management covering a five-year period at 367,666 thousand US Dollars (67,043,911 thousand tenge), and the present value of the residual value at 1,084,014 thousand US Dollars (197,669,975 thousand tenge), resulting in the estimated fair value less costs of disposal of 1,451,680 thousand US Dollars (264,713,886 thousand tenge). As a result, the impairment loss attributable to Refining amounted to 62,843,537 thousand tenge was recognized, of which 21,465,695 thousand tenge was allocated to the related goodwill and 41,377,842 thousand tenge was allocated to the property, plant and equipment. In 2014, the discount rate applied to cash flow projections is 9.7% (2013: 9.7%) and *cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2013: 1.5%) that is the same as* the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.2% (2013: 8.2%).

Dyneff

The recoverable amount of Dyneff unit was determined based on fair value less costs of disposal. In 2014, the discount rate applied to cash flow projections is 8.1% (2013: 8.0%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2013: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 6.6% in 2014 (2013: 6.5%). As a result, the impairment loss attributable to Dyneff was recognized in the amount of 6,423,282 thousand tenge, of which 5,468,494 thousand tenge was allocated to the related goodwill and 954,788 thousand tenge was allocated to the intangible assets.

Downstream Romania

The recoverable amount of Downstream Romania has been determined based on fair value less costs to disposal, which is the present value of the free cash flows adjusted by the present value of the residual value. The discount rate applied to cash flow projections is 9.7% (2013: 9.7%) and cash flows beyond the five-year period are extrapolated using a 1.5% growth rate (2013: 1.5%) that is the same as the long-term average growth rate for the industry. The capitalization rate used for residual values is 8.2% (2013: 8.2%). As a result, no impairment was recognized with respect to Downstream Romania.

4. SIGNIFICA.NT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of downstream, refining and other assets (continued)

Refining, Downstream Romania, Dyneff and Other (continued)

Other

The recoverable amount of Other was determined based on fair value less costs of disposal. The recoverable amount of Other was calculated using the discount rate applied to cash flow projections is 9.8% (2013: 9.8%) and cash flows beyond the five-year period are extrapolated using a 1.5% (2013: 1.5%) growth rate that is the same as the long-term average growth rate for the industry and the capitalization rate at 8.3% in 2014 (2013: 8.3%). As a result, the impairment loss was recognized in the amount of 5,278,986 thousand tenge, of which 2,188,382 thousand tenge was allocated to the related goodwill and 3,090,604 thousand tenge was allocated to the property, plant and equipment.

Key assumptions used in calculating fair value less costs of disposal of Refining, Downstream Romania, Dyneff and Other

The key assumptions used in calculating fair value less costs of disposal are as follows:

- Refinery margins;
- Production volumes;
- Discount rates;
- Growth rate used to extrapolate cash flows beyond the forecast period.

Refinery margins – Estimates are made by the Group's management based the historical information and the industry trends and are generally in line with the analysts' forecasts.

Production volumes – Estimates are made by the Group's management based on the historical production volumes and estimated downtime periods.

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Adjustments to the discount rate are made to factor in the specific amount and timing of the future tax flows in order to reflect a pre-tax discount rate.

Growth rate estimates – Growth rates are based on published industry research.

Sensitivity to changes in assumptions for Refining, Downstream Romania, Dyneff and Other

Results of assessment of recoverable amount of CGUs are sensitive to changes in key assumptions. Changes in the key assumptions would result in a further impairment.

PNHZ

The recoverable amount of PNHZ was determined based on the fair value less costs of disposal, which is the present value of the free cash flows adjusted by the present value of the residual value. The discount rate applied to cash flow projections is 9.1% (2013: 11.34%) and cash flows beyond the five-year period are extrapolated using a 3.87% growth rate (2013: 4.3%). As a result, no impairment was recognized with respect to PNHZ.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Recoverability of downstream, refining and other assets (continued)

PNHZ (continued)

Key assumptions used in calculating fair value less costs of disposal

The key assumptions used in calculating fair value less costs of disposal use for PNHZ are as follows:

- Volumes of crude oil and oil products output;
- Capital expenditures for 2015 – 2018;
- Discount rates.

Volumes of crude oil and oil products output – are the forecasts of the Group with respect to the output of oil products during processing 1 ton of crude oil before and after modernization of PNHZ.

Capital expenditures - costs : a) on reconstruction and modernization of PNHZ; b) necessary to maintain the current condition of the asset.

Prices of Crude oil in the local market - the prices which are based on the assessment of the management of the Group's on purchase of crude oil from local oil producers

Discount rates – Discount rates represent the current market assessment of the risks specific to each CGU, taking into consideration the time value of money and individual risks of the underlying assets that have not been incorporated in the cash flow estimates. The discount rate calculation is based on the specific circumstances of the Group and its operating segments and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual beta factors. The beta factors are evaluated annually based on publicly available market data.

Significant change in valuation technique of the recoverable amount

During prior years, the principal activity of PNHZ was represented by purchase of the west Siberian oil, its refining and subsequent resale of refined products in the domestic and foreign markets. As part of *Interstate trade and economic agreement* between the Russian Federation and Kazakhstan of December 9, 2010, the Group purchased crude oil from the Russian Federation without custom duties. Correspondingly, cost of purchased oil was predicted taking into account Russian oil imported without custom duties.

Since January 1, 2014, Trade and Economic Agreement terms in the part of crude oil purchase regulations expired, and *the Interstate Agreement on collaboration in the area of Russian oil transportation through the territory of the Republic of Kazakhstan to the People's Republic of China* (the "*Collaboration Agreement*") came into effect. In accordance with the *Collaboration Agreement*, in order to provide refineries with oil, Kazakhstan is allowed to replace Russian oil with Kazakhstan oil during transportation of Russian oil to China through the Kazakhstan pipelines.

The *Collaboration Agreement* is valid until January 1, 2019 with an automated extension for 5 (five) years. Based on the possibility to replace Russian oil used at PNHZ for production of oil products with Kazakhstan oil under the *Collaboration Agreement*, the Group's management applied assumption on creation of purchased oil cost at the domestic price for oil in Kazakhstan.

Sensitivity to changes in assumptions

Results of assessment of recoverable amount of PNHZ are sensitive to changes in key assumptions, in particular, assumptions related to changes in exchange rate of tenge, WACC discount rates and target cash flow projections in terminal period. Increase in discount rates by 2% from 9.1% to 11%, would result in recoverable amount to exceed by 106,948 million tenge. Decrease of target cash flow projections in terminal period by 3% from 11.7% to 8.7% would result in impairment of goodwill in the amount of 79,161 million tenge. Decrease of exchange rate tenge against US Dollars by 10% would result in full impairment of goodwill and in impairment of PNHZ non-current assets.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Assets retirement obligations

Oil and gas production facilities

Under the terms of certain subsoil use contracts, legislation and regulations the Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Group's obligation relates to the ongoing closure of all non-producing wells and final closure activities such as removal of pipes, buildings and recultivation of the contract territories, and also obligations to dismantle and remove tangible assets and restore territory at each production site. Since the subsoil use contract terms cannot be extended at the discretion of the Group, the settlement date of the final closure obligations has been assumed to be the end of each subsoil use contract period. If the asset retirement obligations were to be settled at the end of the economic life of oil and gas field, the recorded obligation would increase significantly due to the inclusion of all abandonment and closure costs. The extent of the Group's obligations to finance the abandonment of wells and for final closure costs depends on the terms of the respective subsoil use contracts and current legislation.

Where neither subsoil use contracts nor legislation include an unambiguous obligation to undertake or finance such final abandonment and closure costs at the end of the subsoil use contract term, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

The Group calculates asset retirement obligations separately for each contract. The amount of the obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market.

At each reporting date the Group reviews site restoration provisions, and adjusts them to reflect the current best estimate in accordance with IFRIC 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities.*

Estimating the future closure costs involves significant estimates and judgments by management. Most of these obligations are many years in the future and, in addition to ambiguities in the legal requirements, the Group's estimate can be affected by changes in asset removal technologies, costs and industry practice. Uncertainties related to the final closure costs are mitigated by the effects of discounting the expected cash flows. The Group estimates future well abandonment cost using current year prices and the average long-term inflation rate.

The long-term inflation and discount rates used to determine the obligation in the consolidated statement of financial position across the Group entities at December 31, 2014 were in the range from 3% to 6% and from 6% to 10% respectively (2013: from 2% to 5.6% and from 6% to 8%). Movements in the provision for asset retirement obligations are disclosed in *Note 21.*

Major oil and gas pipelines

According to the Law of the Republic of Kazakhstan "On major pipelines" which was made effective on July 4, 2013 mainly the Group's two subsidiaries, JSC KazTransOil and Intergas Central Asia JSC the subsidiary of KazTransGaz JSC, (*Note 21*), have legal obligation to decommission its major oil pipelines at the end of their operating life and to restore the land to its original condition. Asset retirement obligation is calculated based on estimate of the work to decommission and rehabilitate. As at December 31, 2014 the carrying amounts of the Group's asset retirement obligations relating to decommissioning of pipelines and land were 55,760,151 thousand tenge (December 31, 2013: 16,677,538 thousand tenge).

Assessing the cost of environmental rehabilitation is subject to potential changes in ecological requirements and interpretations of the law. Furthermore, uncertainties in the estimates of these costs include potential changes in alternative liquidation methods, recovery of damaged land, discount and inflation rates and periods of obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Environmental remediation

The Group also makes judgments and estimates in establishing provisions for environmental remediation obligations. Environmental expenditures are capitalized or expensed depending upon their future economic benefit. Expenditures that relate to an existing condition caused by past operations and do not have a future economic benefit are expensed.

Liabilities are determined based on current information about costs and expected plans for remediation and are recorded on an undiscounted basis if the timing of the procedures has not been agreed with the relevant authorities. The Group's environmental remediation provision represents management best estimate based on an independent assessment of the anticipated expenditure necessary for the Group to remain in compliance with the current regulatory regime in Kazakhstan and Europe. The Group has classified this obligation as non-current except for the portion of costs, included in the annual budget for 2014. For environmental remediation provisions, actual costs can differ from estimates because of changes in laws and regulations, public expectations, discovery and analysis of site conditions and changes in clean-up technology. Further uncertainties related to environmental remediation obligations are detailed in *Note 35*. Movements in the provision for environmental remediation obligations are disclosed in *Note 21*.

Employee benefits

The cost of defined long-term employee benefits before, on and after retirement and the present value of the obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases.

Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Taxation

In assessing tax risks, management considers to be probable obligations the known areas of tax positions which the Group would not appeal or does not believe it could successfully appeal, if assessed by tax authorities. Such determinations inherently involve significant judgment and are subject to change as a result of changes in tax laws and regulations, amendments to the taxation terms of the Group's subsoil use contracts, the determination of expected outcomes from pending tax proceedings and current outcome of ongoing compliance audits by tax authorities. The provision for tax risks disclosed under other provisions or provisions for taxes in *Note 21* relates mainly to the Group's application of Kazakhstan transfer pricing legislation to export sales of crude oil and value-added tax. Further uncertainties related to taxation are disclosed in *Note 35*.

Taxable income is computed in accordance with the tax legislation enacted as at January 1, 2014. Deferred tax is calculated with respect to both CIT and EPT. Deferred CIT and EPT are calculated on temporary differences for assets and liabilities allocated to subsoil use contracts at the expected rates that were enacted by the tax authorities as at December 31, 2014.

Deferred tax assets are recognized for all allowances and unused tax losses to the extent that it is probable that taxable temporary differences and business nature of such expenses will be proved. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of recognized deferred tax assets as at December 31, 2014 was 93,131,484 thousand tenge (2013: 29,688,534 thousand tenge). Further details are disclosed in *Note 31*.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Further details are disclosed in *Note 33*.

Operating lease commitments – the Group as lessee

The Group has entered into office space and car leases. The Group has determined that the lessor retains all the significant risks and rewards of ownership of office spaces and cars and so accounts for them as operating leases in the consolidated financial statements.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for prospectively as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors".

Fair values of assets and liabilities acquired in business combinations

The Group is required to recognize separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in the business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques, which require considerable judgment in forecasting future cash flows and developing other assumptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. DISCOUNTINUED OPERATIONS

"EurasiaAir JSC" (EA)

On October 23, 2014, the Group decided to sell its 100% interest in EA. The disposal of EA is due to be completed in 2015 and, as at December 31, 2014, final negotiations for the sale were in progress. The disposal of EA is in accordance with the Governmental plan on the privatization of state owned companies in 2014-2016, therefore, the Group considers it as the discontinued operation.

The results of EA for the years ended December 31, 2014 and 2013 are presented below:

In thousands of tenge	**2014**	2013
Revenue	**6,989,741**	5,002,309
Cost of sales	**(9,186,123)**	(6,277,790)
Gross loss	**(2,196,382)**	(1,275,481)
General and administrative expenses	**(546,395)**	(557,067)
Transportation and selling expenses	**(1,780)**	(1,645)
Other operating income	**57,366**	98,756
Other operating losses	**(12,563)**	(93,128)
Operating loss	**(2,699,754)**	(1,828,565)
Net foreign exchange (loss) / gain, net	**(655,668)**	6,584
Finance income	**4,160**	14,087
Finance costs	**(143,283)**	(72,580)
Loss before income tax for the year from discontinued operation	**(3,494,545)**	(1,880,474)
Income tax benefit	**(80,855)**	(195,791)
Loss after income tax for the year from discontinued operation	**(3,575,400)**	(2,076,265)

The major classes of assets and liabilities of EA, classified as held for sale as at December 31, 2014 and 2013 are as follows:

In thousands of tenge	**2014**	2013
ASSETS		
Property, plant and equipment	**18,447,343**	16,224,817
Intangible assets	**5,900**	6,617
Inventories	**255,523**	299,219
Trade accounts receivable	**2,128,161**	558,382
VAT recoverable	**–**	1,373,387
Other current assets	**546,059**	588,343
Cash and cash equivalents	**2,241,386**	1,849,269
Assets classified as held for sale	**23,624,372**	20,900,034
Liabilities		
Borrowings	**5,259,231**	4,114,562
Deferred income tax liabilities	**1,361,006**	1,280,775
Trade accounts payable	**1,976,171**	320,275
Other non-current liabilities	**3,536**	3,536
Other current liabilities	**461,130**	298,028
Liabilities directly associated with the assets classified as held for sale	**9,061,074**	6,017,176
Net assets directly associated with the disposal group	**14,563,298**	14,882,858

The net cash flows incurred by EA are as follows:

In thousands of tenge	**2014**	2013
Operating	**1,728,165**	3,405,132
Investing	**(1,636,731)**	(1,841,408)
Financing	**137,814**	(1,206,372)
Net cash inflows	**229,248**	357,352

5. DISCOUNTINUED OPERATIONS (continued)

"Aysir Turizm ve Inshaat A.S" ("Aysir")

In 2012, the Group made a decision to sell its 75% share in Aysir. The disposal of Aysir is expected to be completed in 2015 and, as at December 31, 2014, the procedures for the sale were in progress. The disposal of Aysir was in accordance with the Governmental plan on the privatization of state owned companies in 2014-2016, therefore, the Group considers it as the discontinued operation.

The results of Aysir for the years ended December 31, 2014 and 2013 are presented below:

In thousands of tenge	2014	2013
Revenue	**3,111,158**	2,808,192
Cost of sales	**(2,458,000)**	(2,181,170)
Gross profit	**653,158**	627,022
General and administrative expenses	**(168,346)**	(159,559)
Other operating income	**16,161**	10,018
Operating income	**500,973**	477,481
Net foreign exchange loss	**(100,007)**	(112,692)
Finance income	**9,599**	5,209
Finance costs	**(17,557)**	(38,708)
Profit before income tax for the year from discontinued operation	**393,008**	331,290
Income tax expenses	**–**	–
Profit after income tax for the year from discontinued operation	**393,008**	331,290

The major classes of assets and liabilities of Aysir, classified as held for sale as at December 31, 2014 and 2013 are as follows:

In thousands of tenge	2014	2013
ASSETS		
Property, plant and equipment	**5,449,623**	4,796,697
Intangible assets	**3,373,271**	3,372,572
Inventories	**78,836**	69,106
Trade accounts receivable	**122,302**	101,681
VAT recoverable	**6,445**	6,400
Other current assets	**155,392**	129,582
Cash and cash equivalents	**788,358**	762,317
Assets classified as held for sale	**9,974,227**	9,238,355
Liabilities		
Borrowings	**–**	748,152
Deferred income tax liabilities *(Note 31)*	**540,540**	540,540
Trade accounts payable	**163,802**	207,604
Other non-current liabilities	**1,493,145**	1,381,430
Other current liabilities	**304,671**	206,237
Liabilities directly associated with the assets classified as held for sale	**2,502,158**	3,083,963
Net assets directly associated with the disposal group	**7,472,069**	6,154,392

The net cash flows incurred by Aysir are as follows:

In thousands of tenge	2014	2013
Operating	**444,821**	862,467
Investing	**(83,230)**	(150,343)
Financing	**(402,652)**	(375,536)
Net cash (outflow) / inflow	**(41,061)**	336,588

As of December 31, 2014 assets classified as held for sale include various assets of 1,947,628 thousand tenge (2013: 5,574,993 thousand tenge) which are to be disposed of during twelve months after the reporting date.

6. ACQUISITIONS

On June 30, 2014 the Company concluded a contract for acquisition of 49% of ownership in KazakTurkMunay LLP ("KTM"), the existing 51% joint venture, from Türkiye Petrolleri Anonim Ortakliği (further "TPAO") for 204,500,000 US Dollars (37,168,557 thousand tenge at the acquisition date), excluding withholding tax, and increased its ownership in KTM to 100%. The acquisition was completed in October 2014.

The purchase consideration is payable in two tranches, the first tranche was made on September 25, 2014 with cash paid of 28,507,982 thousand tenge, including the withholding tax of 3,711,675 thousand tenge.

The second tranche will be made on May 5, 2015 with the nominal amount of 14,205,802 thousand tenge, including the withholding tax of 1,833,552 thousand tenge. The discounted amount of the second tranche is 13,700,319 thousand tenge, including the withholding tax of 1,768,309 thousand tenge.

The fair value of acquisition cost was 42,208,301 thousand tenge, including withholding tax and unamortized discount of 5,479,984 thousand tenge and 505,483 thousand tenge, respectively. The fair value of acquisition cost was determined using discounted cash flow method at 6.98% market interest rate at the date of acquisition.

The excess of fair value of consideration over fair value of net assets of KTM as of acquisition date and gain on reassessment of existing 51% share were recognized as distribution to the Shareholder due to the fact that the acquisition was made at the Shareholder instructions (*Note 18*).

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of KTM as at the date of acquisition were:

In thousands of tenge	Fair value recognized on acquisition
Property, plant and equipment	39,666,961
Intangible assets	12,902
Other non-current assets	591,927
Trade receivables	2,281,675
Inventories	1,077,443
Other current assets	1,044,345
Cash and cash equivalents	8,235,554
Total assets	**52,910,807**
Trade payables	1,709,583
Payables to TPAO	8,505,412
Provisions	1,267,357
Deferred tax liability	3,490,610
Other current liability	1,593,465
Total liabilities	**16,566,427**
Total identifiable net assets at fair value	**36,344,380**
Existing interest measured at fair value	43,931,089
The excess of fair value of consideration over fair value of net assets	**26,916,423**
Fair value of purchase consideration	42,208,301
Fair value of purchase consideration	
Cash and cash equivalents transferred	28,507,982
Deferred payments, at fair value	13,700,319
Total fair value of purchase consideration	**42,208,301**
Cash flow on acquisition	
Net cash acquired with the subsidiary	8,235,554
Cash paid	(28,507,982)
Net cash outflow on acquisition	**(20,272,428)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Net book value as at December 31, 2012	**1,960,029,016**	**292,786,187**	**460,497,374**	**198,985,648**	**189,576,023**	**89,013,754**	**26,964,076**	**205,404,317**	**3,423,256,395**
Foreign currency translation	25,493,668	(537)	6,106,894	973,621	235,317	417,756	221,143	(561,311)	32,886,551
Additions	117,626,232	12,025,834	2,969,837	19,126,201	11,953,956	10,654,649	6,322,315	383,742,453	564,421,477
Disposals	(13,096,259)	(444,171)	(1,532,923)	(9,579,041)	(5,788,541)	(2,537,156)	(3,209,627)	(5,878,661)	(42,066,379)
Depreciation charge	(57,601,209)	(13,796,683)	(37,088,236)	(14,965,012)	(29,427,401)	(11,513,005)	(7,883,117)	–	(172,274,663)
Accumulated depreciation and impairment on disposals	8,514,406	301,625	1,007,572	5,970,249	5,183,491	1,973,306	2,974,754	754,774	26,680,177
(Impairment) / reversal of impairment	(49,288,386)	537	941,382	(1,446,983)	(1,342,070)	(2,243,135)	(401,632)	(6,295,594)	(60,075,881)
Transfers to investment property (Note 9)	(26,826,709)	–	–	–	–	–	–	–	(26,826,709)
Transfer from inventory	–	–	8,964,217	–	–	–	–	–	8,964,217
Transfers from exploration and evaluation assets (Note 8)	41,838	–	–	–	–	–	–	–	41,838
Transfers to intangible assets (Note 10)	(80,629)	–	–	–	(477)	–	(205)	(374,245)	(455,556)
Transfers to assets classified as held for sale	(22,374)	–	(27,531)	(5,445,606)	(374,949)	(7,355)	(8,569)	(665,117)	(6,551,501)
Transfers and reclassifications	102,918,184	9,354,955	34,900,057	25,380,631	68,054,756	9,322,153	3,524,846	(253,455,582)	–
Net book value as at December 31, 2013	**2,067,707,778**	**300,227,747**	**476,738,643**	**218,999,708**	**238,070,105**	**95,080,967**	**28,503,984**	**322,671,034**	**3,747,999,966**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
Foreign currency translation	327,858,380	250,522	59,916,806	9,819,976	5,493,941	4,057,120	711,401	2,018,239	410,126,385
Additions	113,656,081	185,461,097	1,038,158	26,375,876	54,459,224	5,002,285	3,098,680	334,905,048	723,594,589
Acquisition of subsidiary (*Note 6*)	22,213,288	15,459,977	–	628,216	809,712	338,117	17,850	199,801	39,666,961
Disposals	(12,978,641)	(641,275)	(3,921,282)	(4,309,271)	(5,985,447)	(3,646,718)	(3,758,474)	(2,489,239)	(37,730,347)
Disposals of the capitalized amounts under Concession Agreement (*Note 18*)	–	(56,926,768)	–	(12,578,568)	(64,181,966)	(114,983)	–	–	(133,802,285)
Depreciation charge	(72,929,007)	(16,830,609)	(47,827,690)	(14,826,182)	(28,861,370)	(12,407,525)	(8,263,215)	–	(201,945,598)
Accumulated depreciation and impairment on disposals	9,866,812	531,746	3,149,890	2,234,417	4,036,251	3,197,423	3,713,402	966,292	27,696,233
Accumulated depreciation and impairment on disposals of the capitalized amounts under Concession Agreement (*Note 18*)	–	17,714,532	–	3,695,123	29,131,352	84,395	–	–	50,625,402
(Impairment) / reversal of impairment	(232,232,418)	(2,880,997)	(41,377,842)	(8,928,666)	(6,150,326)	(8,529,437)	(1,578,355)	(18,531,992)	(320,210,033)
Transfers from / (to) inventory, net	(1,206)	(69,861)	(2,932)	284	91,327	119,168	42,468	11,517,114	11,696,362
Transfer (to) / from assets held for sale, net	(2,798)	–	(460,339)	(213,275)	(501,623)	(71,964)	(9,366)	(1,416)	(1,260,781)
Transfers to discontinued operations (*Note 5*)	(2,659)	–	–	(39,741)	(24,489)	(17,988,209)	(35,147)	(357,138)	(18,447,343)
Transfers to investment property (*Note 9*)	–	–	–	–	(838)	–	(4,289)	–	(5,127)
Transfers from / (to) intangible assets, net (*Note 10*)	(160,400)	–	–	–	(123)	–	6,850	(1,103,499)	(1,257,172)
Transfer to exploration and evaluation assets (*Note 8*)	–	–	–	–	–	–	–	(629,125)	(629,125)
Transfers and reclassifications	107,983,041	96,602,304	16,960,530	18,246,801	48,386,863	7,163,188	5,585,911	(300,928,638)	–
Net book value as at December 31, 2014	**2,330,978,251**	**538,898,415**	**464,213,942**	**239,104,698**	**274,772,593**	**72,283,827**	**28,031,700**	**347,834,621**	**4,296,118,047**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. PROPERTY, PLANT AND EQUIPMENT (continued)

In thousands of tenge	Oil and gas assets	Pipelines	Refinery assets	Buildings and improvements	Machinery and equipment	Vehicles	Other	Capital work in progress	Total
At cost	3,066,391,626	622,855,659	773,643,803	364,916,584	444,314,021	144,461,202	66,895,486	373,483,103	**5,856,961,484**
Accumulated depreciation and impairment	(735,413,375)	(83,957,244)	(309,429,861)	(125,811,886)	(169,541,428)	(72,177,375)	(38,863,786)	(25,648,482)	**(1,560,843,437)**
Net book value as at December 31, 2014	**2,330,978,251**	**538,898,415**	**464,213,942**	**239,104,698**	**274,772,593**	**72,283,827**	**28,031,700**	**347,834,621**	**4,296,118,047**
At cost	2,497,105,567	382,618,606	679,115,994	319,808,146	396,762,801	153,473,884	63,536,427	331,354,456	4,823,775,881
Accumulated depreciation and impairment	(429,397,789)	(82,390,859)	(202,377,351)	(100,808,438)	(158,692,696)	(58,392,917)	(35,032,443)	(8,683,422)	**(1,075,775,915)**
Net book value as at December 31, 2013	**2,067,707,778**	**300,227,747**	**476,738,643**	**218,999,708**	**238,070,105**	**95,080,967**	**28,503,984**	**322,671,034**	**3,747,999,966**

In 2014, the Group capitalized in the carrying amount of property, plant and equipment borrowing costs at the average interest rate of 9.35% in the amount of 18,231,016 thousand tenge which are related to the construction of assets (2013: 12,253,918 thousand tenge at the average interest rate of 9.75%).

As at December 31, 2014, items of property, plant and equipment with the net book value of 1,564,259,884 thousand tenge (2013: 1,305,221,887 thousand tenge) were pledged as collateral to secure borrowings and payables of the Group (*Notes 19, 20* and *22*).

Additions to capital work in progress are mainly related to modernization projects of the Group refineries located in Atyrau and Pavlodar cities and development drilling at OzenMunaigas and Embamunaigas.

As at 31 December 2014 the initial cost and correspondingly accumulated depreciation of fully depreciated but still in use property, plant and equipment were 185,876,613 thousand Tenge (2013: 129,657,707 thousand tenge).

Impairment of property, plant and equipment

In 2014, the Group recorded net impairment loss in the amount of 320,210,033 thousand tenge, which is mainly consists of impairment of property, plant and equipment of KMG EP in the amount of 256,682,910 thousand tenge, Batumi Terminal Limited, the subsidiary of KTO in the amount of 11,847,147 thousand tenge and KMGI in the amount of 44,468,446 thousand tenge (for details please refer to *Note 4*).

In 2013 the Group recorded net impairment loss of 60,075,881 thousand tenge, which is mainly attributable to impairment of property, plant and equipment of KMG EP in the amount of 60,043,964 thousand tenge.

8. EXPLORATION AND EVALUATION ASSETS

In thousands of tenge	Tangible	Intangible	Total
Net book value as at December 31, 2012	167,991,801	17,292,367	**185,284,168**
Foreign currency translation	1,580,286	81,400	**1,661,686**
Additions	30,772,757	5,349,022	**36,121,779**
Transfer to property, plant and equipment	(41,838)	–	**(41,838)**
Disposals	(3,485,546)	(593,523)	**(4,079,069)**
Accumulated impairment on disposals	2,753,212	–	**2,753,212**
Net book value as at December 31, 2013	**199,570,672**	**22,129,266**	**221,699,938**
Foreign currency translation	21,063,427	1,364,939	**22,428,366**
Additions	22,613,276	12,868,168	**35,481,444**
Transfer from property, plant and equipment	–	629,125	**629,125**
Disposals	(3,174,005)	–	**(3,174,005)**
Transfers and reclassifications	*(9,311,057)*	*9,311,057*	–
Accumulated impairment on disposals	–	–	–
Net book value as at December 31, 2014	**230,762,313**	**46,302,555**	**277,064,868**

As at December 31, 2014, certain exploration and evaluation assets with the carrying value of 51,825,511 thousand tenge were pledged as collateral to secure payables of the Group (2013: 45,736,815 thousand tenge) (*Note 20*). As at December 31, 2014 and 2013 the exploration and evaluation assets are represented by the following projects:

In thousands of tenge	2014	2013
North Caspian PSA (Kashagan, Aktoty, Kayran, Kalamkas)	**103,651,022**	87,282,230
Pearls	**32,039,193**	29,494,055
Project N	**52,837,668**	27,335,000
Urikhtau	**34,190,377**	21,983,603
Zhambyl	**25,734,420**	15,178,024
Other	**28,612,188**	40,427,026
	277,064,868	221,699,938

Exploration costs on Pearls and Zhambyl projects are financed by project partners other than the Group. Respective financial liabilities are recognized within borrowings (*Note 19*). The repayment of the financing for these projects depends on the identification of commercially recoverable reserves.

9. INVESTMENT PROPERTY

In thousands of tenge	Total
Net book value as at December 31, 2012	-
Additions	3,312,672
Depreciation charge	(592,499)
Disposals	(3,378,040)
Accumulated depreciation and impairment on disposals	2,416,717
Transfer from property, plant and equipment *(Note 7)*	26,826,709
Transfers to assets classified as held for sale	(342,239)
Net book value as at December 31, 2013	**28,243,320**
At cost	29,313,019
Accumulated depreciation and impairment	(1,069,699)
Net book value as at December 31, 2013	**28,243,320**
Additions	2,125
Depreciation charge	(605,534)
Disposals	(93,868)
Transfer from property, plant and equipment *(Note 7)*	5,127
Transfers to assets classified as held for sale	(353,536)
Net book value as at December 31, 2014	**27,197,634**
At cost	28,762,548
Accumulated depreciation and impairment	(1,564,914)
Net book value as at December 31, 2014	**27,197,634**
At cost	29,313,019
Accumulated depreciation and impairment	(1,069,699)
Net book value as at December 31, 2013	***28,243,320***

Investment property is mainly represented by Izumrudny Kvartal office building leased under operating lease terms. The management of the Group believes that as at December 31, 2014 the fair value of this building is 31,514,534 thousand tenge (2013: 31,126,069 thousand tenge). The fair value of investment property was based on the market price of the office property (*Note 33*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS

In thousands of tenge	Goodwill	Marketing related intangible assets	Software	Other	Total
Net book value as at December 31, 2012	**135,026,234**	**27,434,077**	**20,145,083**	**18,602,532**	**201,207,926**
Foreign currency translation	54,240	522,329	16,624	392,230	**985,423**
Additions	–	–	3,910,563	4,597,226	**8,507,789**
Disposals	–	–	*(563,678)*	*(847,136)*	***(1,410,814)***
Amortization charge	–	–	(5,146,136)	(2,609,469)	**(7,755,605)**
Accumulated amortization on disposals	–	–	559,166	556,436	**1,115,602**
Impairment	–	–	–	(2,406,696)	**(2,406,696)**
Transfer from property, plant and equipment *(Note 7)*	–	–	147,638	307,918	**455,556**
Transfer to inventory	–	–	(253,589)	(2,709)	**(256,298)**
Transfers	–	–	385,358	(385,358)	–
Net book value as at December 31, 2013	**135,080,474**	**27,956,406**	**19,201,029**	**18,204,974**	**200,442,883**
Foreign currency translation	7,190,733	5,221,460	1,904,521	2,074,630	**16,391,344**
Additions	–	717	4,078,218	2,035,033	**6,113,968**
Acquisition of subsidiary	–	–	–	12,902	**12,902**
Disposals	–	–	(2,207,566)	(3,184,157)	**(5,391,723)**
Amortization charge	–	–	(6,750,963)	(1,947,550)	**(8,698,513)**
Accumulated amortization on disposals	–	–	2,196,317	2,403,086	**4,599,403**
Impairment	(30,744,793)	(954,788)	(69,452)	29,029	**(31,740,004)**
Transfer from property, plant and equipment, net	–	–	812,896	444,276	**1,257,172**
Transfer to inventory	–	–	(5,443)	(8,327)	**(13,770)**
Transfers to discontinued operations	–	–	(5,900)	–	**(5,900)**
Transfers to assets classified as held for sale	–	–	(1,198)	(294)	**(1,492)**
Transfers	–	–	460,588	(460,588)	–
Net book value as at December 31, 2014	**111,526,414**	**32,223,795**	**19,613,047**	**19,603,014**	**182,966,270**
At cost	172,992,901	33,802,060	46,192,792	40,311,371	**293,299,124**
Accumulated amortization and impairment	(61,466,487)	(1,578,265)	(26,579,745)	(20,708,357)	**(110,332,854)**
Net book value as at December 31, 2014	**111,526,414**	**32,223,795**	**19,613,047**	**19,603,014**	**182,966,270**
At cost	165,802,168	28,585,862	42,789,530	37,181,369	**274,358,929**
Accumulated amortization and impairment	(30,721,694)	(629,456)	(23,588,501)	(18,976,395)	**(73,916,046)**
Net book value as at December 31, 2013	**135,080,474**	**27,956,406**	**19,201,029**	**18,204,974**	**200,442,883**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. INTANGIBLE ASSETS (continued)

Carrying amount of goodwill is allocated to each of the group of cash-generating units as follows:

Cash-generating unit	2014	2013
Refining	–	11,045,697
Dyneff	–	5,222,688
Downstream Romania	**6,774,389**	6,688,772
Other	**2,826,195**	8,575,265
Cash generating units of KMGI	**9,600,584**	31,532,422
Cash-generating units of PNHZ	***88,553,296***	*88,553,296*
Other	**13,372,534**	14,994,756
Total goodwill	**111,526,414**	135,080,474

Refining, Downstream Romania and Dyneff

Based on the impairment test, the impairment losses recognised in respect of KMGI CGUs' goodwill are as follows:

Cash-generating unit	2014	2013
Refining	**21,465,695**	–
Dyneff	**5,468,494**	–
Other	**2,188,382**	–
Total goodwill	**29,122,571**	–

PNHZ, a 100% subsidiary of KMG RM

In 2014 and 2013, based on the impairment test results, no impairment of PNHZ goodwill was recognized.

For the detailed discussion of testing goodwill for impairment refer to *Note 4*.

11. LONG-TERM BANK DEPOSITS

In thousands of tenge	2014	2013
Denominated in US Dollar	**80,337,198**	38,739,598
Denominated in KZT	**17,187,051**	43,196,138
	97,524,249	81,935,736

As at December 31, 2014, the weighted average interest rate for long-term bank deposits was 4.52% in US Dollars and 3.31% in tenge, respectively (2013: 2.66% in US Dollars and 5.23% in tenge, respectively).

In thousands of tenge	2014	2013
Maturities between 1 and 2 years	**36,400,455**	34,235,660
Maturities over 2 years	**61,123,794**	47,700,076
	97,524,249	81,935,736

As at December 31, 2014 long-term bank deposits include cash pledged as collateral of 44,344,744 thousand tenge (2013: 31,735,113thousand tenge).

As at December 31, 2013, long-term bank deposits include 6,431,154 thousand tenge in Alliance Bank. (*Note 32*)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

In thousands of tenge	Main activity	Place of business	December 31, 2014 Carrying value	December 31, 2014 Percentage ownership	December 31, 2013 Carrying value	December 31, 2013 Percentage ownership
Joint ventures:						
Tengizchevroil LLP	Oil and gas exploration and production	Kazakhstan	**501,119,245**	**20.00%**	311,880,773	20.00%
Mangistau Investments B.V.	Oil and gas development and production	Kazakhstan	**196,194,403**	**50.00%**	185,003,198	50.00%
Kazakhoil-Aktobe LLP	Production of crude oil	Kazakhstan	**85,877,971**	**50.00%**	83,800,157	50.00%
Beineu-Shymkent Pipeline LLP	Construction and operation of the gas pipeline	Kazakhstan	**66,885,166**	**50.00%**	70,268,878	50.00%
KazRosGas LLP	Processing and sale of natural gas and refined gas products	Kazakhstan	**62,333,974**	**50.00%**	46,081,108	50.00%
KazGerMunay LLP	Exploration and production of oil and gas	Kazakhstan	**67,662,371**	**50.00%**	69,047,486	50.00%
Other			**89,121,304**		121,483,321	
Associates:						
PetroKazakhstan Inc. ("PKI")	Exploration, production and processing of oil and gas	Kazakhstan	**117,103,135**	**33.00%**	86,391,266	33.00%
Other			**31,363,831**		24,533,989	
			1,217,661,400		998,490,176	

All of the above joint ventures and associates are strategic for the Group's business.

As at December 31, 2014, the Group's share in unrecognized losses of joint ventures and associates was equal to 37,025,273 thousand tenge (December 31, 2013: 22,979,168 thousand tenge). The Group's share in unrecognized losses of joint ventures and associates for 2014 was 14,046,105 thousand tenge (2013: the recovery of unrecognized losses of 7,933,401 thousand tenge).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following table summarizes the movements in investments in 2014 and 2013:

In thousands of tenge	2014	2013
At January 1	**998,490,176**	894,097,039
Contributions	**1,034,370**	34,200
Disposals	**(21,205,651)**	–
Acquisitions of joint venture	**3,677,319**	–
Financial guarantee	**9,342,198**	–
Share in profits, net (*Note 30*)	**427,857,457**	483,517,390
Dividends received	**(331,972,975)**	(410,455,258)
Change in dividends receivable	**19,262,694**	15,558,246
Impairment of investments	**(1,034,370)**	–
Other changes in the equity of the joint venture	**2,878,042**	4,881,727
Foreign currency translation	**109,332,140**	10,856,832
At December 31	**1,217,661,400**	998,490,176

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2014:

In thousands of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP
Non-current assets	2,800,071,960	424,102,058	134,267,173	330,271,961	26,399,357	160,688,613
Current assets, including	643,150,640	86,744,781	51,668,657	31,178,242	107,475,442	53,055,126
Cash and cash equivalents	222,714,814	6,581,654	35,087,841	125,277	83,763,558	37,629,810
Non-current liabilities, including	(652,275,797)	(43,107,919)	(6,673,604)	(200,148,532)	(291,395)	(50,724,134)
Non-current financial liabilities	–	–	–	–	–	–
Current liabilities, including	(285,350,580)	(75,350,114)	(7,506,284)	(46,215,735)	(8,915,456)	(27,694,863)
Current financial liabilities	–	–	–	–	–	–
Equity	**2,505,596,223**	**392,388,806**	**171,755,942**	**115,085,936**	**124,667,948**	**135,324,742**
Share of ownership	20%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	–	–
KMG's share of the cost of guarantee given	–	–	–	9,342,198	–	–
Carrying amount of the investments as at December 31, 2014	**501,119,245**	**196,194,403**	**85,877,971**	**66,885,166**	**62,333,974**	**67,662,371**
Revenue	4,085,568,171	658,831,955	78,216,098	16,253,632	174,448,013	238,222,269
Depreciation, depletion and amortization	(180,588,446)	(27,096,929)	(27,324,378)	(9,172,945)	(447,263)	(13,712,763)
Finance income	1,839,433	199,647	143,617	–	2,202,280	1,052,700
Finance costs	(22,660,795)	(2,547,853)	(846,778)	(6,797,181)	–	(663,277)
Income tax expense	(676,775,558)	(35,112,740)	(7,311,426)	–	(20,396,036)	(51,840,239)
Profit / (loss) for the year from continuing operations	1,579,142,195	113,877,820	4,155,628	(27,721,852)	58,967,380	70,872,675
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–
Other comprehensive income	303,459,835	–	–	–	18,208,436	17,285,098
Total comprehensive income / (loss)	1,882,602,030	113,877,820	4,155,628	(27,721,852)	77,175,816	88,157,773
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	187,281,934	45,747,705	–	–	22,335,042	45,464,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information of material joint ventures, based on financial statements of these entities for 2013:

In thousands of tenge	Tengizchevroil LLP	Mangistau Investments B.V.	Kazakhoil-Aktobe LLP	Beineu-Shymkent Pipeline LLP	KazRosGas LLP	KazGerMunay LLP
Non-current assets	2,046,774,141	402,933,692	150,324,201	297,419,369	3,852,541	175,436,192
Current assets, including	541,782,623	80,287,942	43,071,960	11,624,960	96,391,404	84,923,422
Cash and cash equivalents	*69,982,873*	*11,033,555*	*2,478,622*	*10,422,220*	*68,528,701*	*27,800,995*
Non-current liabilities, including	(582,356,400)	(50,569,146)	(7,609,314)	(139,882,216)	(191,398)	(45,420,782)
Non-current financial liabilities	–	–	*(391,706)*	*(138,737,404)*	–	–
Current liabilities, including	(446,796,497)	(62,646,092)	(18,186,533)	(28,624,357)	(7,890,331)	(76,843,860)
Current financial liabilities	*(97,841,121)*	–	*(1,529,425)*	–	–	–
Equity	1,559,403,867	370,006,396	167,600,314	140,537,756	92,162,216	138,094,972
Share of ownership	20%	50%	50%	50%	50%	50%
Accumulated unrecognized share of losses	–	–	–	–	–	–
Carrying amount of the investments as at December 31, 2013	311,880,773	185,003,198	83,800,157	70,268,878	46,081,108	69,047,486
Revenue	3,839,623,066	643,602,897	127,262,614	–	140,828,870	372,391,853
Depreciation, depletion and amortization	(161,495,579)	(21,179,090)	(18,939,127)	(38,240)	(368,763)	(10,146,007)
Finance income	1,287,020	154,260	524,334	44	2,894,730	588,888
Finance costs	(26,775,793)	(4,762,607)	(840,893)	(332,726)	–	(603,916)
Income tax expense	(633,969,523)	(36,029,324)	(3,218,077)	–	(14,918,933)	(75,103,026)
Profit / (loss) for the year from continuing operations	1,479,538,372	113,037,838	23,429,354	(3,380,863)	44,670,084	86,431,730
Profit after income tax for the year from discontinued operations	–	–	–	–	–	–
Other comprehensive income	27,499,420	250,418	–	–	2,426,674	2,172,182
Total comprehensive income / (loss)	1,507,037,792	113,288,256	23,429,354	(3,380,863)	47,096,758	88,603,912
Unrecognized share of losses	–	–	–	–	–	–
Dividends received	254,225,744	48,590,322	–	–	40,891,107	30,570,250

12. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES (continued)

The following tables illustrate summarized financial information about a material associate, based on its financial statements:

	PetroKazakhstan Inc.	
In thousands of tenge	**2014**	2013
Non-current assets	**450,552,137**	418,059,373
Current assets	**97,201,303**	48,106,503
Non-current liabilities	**(106,143,902)**	(117,547,797)
Current liabilities	**(86,751,554)**	(86,826,364)
Equity	**354,857,984**	261,791,715
Share of ownership	**33%**	33%
Accumulated unrecognized share of losses	**–**	–
Carrying amount of the investment as at December 31	**117,103,135**	86,391,266
Revenue	**305,364,659**	295,927,631
Profit for the year from continuing operations	**69,720,719**	71,959,424
Profit for the year from continuing operations after income tax	**–**	–
Other comprehensive income	**55,823,748**	4,580,645
Total comprehensive income	**125,544,467**	76,540,069
Unrecognized share of losses	**–**	–
Dividends received	**29,980,500**	35,334,420

As at December 31, 2014, dividends receivable from PKI were nil (2013: 19,262,694 thousand tenge).

The following tables illustrate aggregate financial information of individually immaterial joint ventures (the Group's proportional share):

In thousands of tenge	**2014**	2013
Non-current assets	**978,048,957**	921,653,040
Current assets	**218,597,733**	114,478,077
Non-current liabilities	**(968,961,144)**	(843,632,814)
Current liabilities	**(138,564,242)**	(71,014,982)
Carrying amount of the investments as at December 31	**89,121,304**	121,483,321
(Loss) / profit for the year from continuing operations	**(21,992,551)**	30,838,934
Profit after income tax for the year from discontinued operations		–
Other comprehensive income	**7,637,662**	790,160
Total comprehensive (loss) / profit	**(14,354,889)**	31,629,094

The following tables illustrate aggregate financial information of individually immaterial associates (the Group's proportional share):

In thousands of tenge	**2014**	2013
Non-current assets	**29,330,988**	23,954,516
Current assets	**5,166,615**	3,626,698
Non-current liabilities	**(125,749)**	(113,979)
Current liabilities	**(3,008,021)**	(2,933,246)
Carrying amount of the investments as at December 31	**31,363,831**	24,533,989
Profit for the year from continuing operations	**937,905**	930,101
Profit after income tax for the year from discontinued operations	**–**	–
Other comprehensive income	**4,833,909**	630,539
Total comprehensive income	**5,771,814**	1,560,640

13. NOTE RECEIVABLE FROM A SHAREHOLDER OF A JOINT VENTURE

In 2007, the Group acquired a 50% interest in a jointly controlled entity, CITIC Canada Energy Limited ("CCEL"), whose investments are involved in oil and natural gas production in the Western Kazakhstan, from its co-investor, State Alliance Holdings Limited, a holding company ultimately belonging to CITIC Group ("CITIC"), and listed on the Hong Kong Stock Exchange.

CCEL is contractually obliged to declare dividends on an annual basis based on available distributable equity. At the same time, for the period until 2020 KMG EP is contractually obliged to transfer any dividends received from CCEL, in excess of a guaranteed amount, to CITIC, up to the total maximum amount, which is equal to 509.5 million US Dollars (92,912 thousand tenge) as at December 31, 2014 (2013: 536.3 million US Dollars or 82,381,043 thousand tenge). The total maximum amount represents the balance of KMG EP's share of the original purchase price funded by CITIC plus accrued interest. KMG EP has no obligation to pay amounts to CITIC unless it receives an equivalent amount from CCEL. Accordingly, the Group recognizes in its consolidated statement of financial position only the right to receive dividends from CCEL in the guaranteed amount on an annual basis until 2020, plus the right to retain any dividends in excess of the total maximum guaranteed amount. The carrying amount of this receivable at December 31, 2014, was equal to 100.5 million US Dollars (18,465,695 thousand tenge) (2013: 110.9 million US Dollars or 17,191,569 thousand tenge).

In addition, KMG EP has the right, subject to certain conditions precedent, to exercise a put option and return the investment to CITIC in exchange for 150 million US Dollars plus annual interest of 8% less the cumulative amount of the guaranteed payments received.

On November 17, 2008, the annual Guaranteed Amount has been increased from 26.2 million US Dollars (3,147,406 thousand tenge) to 26.9 million US Dollars (3,231,497 thousand tenge), payable in two equal installments not later than June 12 and December 12. After the above amendment the effective interest rate on the receivable from CCEL is 15% per annum.

CCEL equity is nil as CCEL is contractually obliged to distribute all income to its participants, therefore, classifying all distributable income as a liability.

14. INVENTORIES

In thousands of tenge	**2014**	2013
Materials and supplies	**88,623,744**	92,901,093
Refined products	**75,457,717**	66,798,121
Crude oil	**29,445,423**	40,550,045
Gas products	**13,853,302**	8,213,243
Less: provision for obsolete inventory	**(12,419,427)**	(13,084,677)
	194,960,759	195,377,825

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS

In thousands of tenge	**2014**	2013
Advances paid and prepaid expenses	**45,047,301**	22,798,266
Taxes receivable	**31,057,762**	18,139,829
Other current assets	**38,329,752**	47,329,519
Less: allowance for impairment	**(15,852,965)**	(14,182,876)
Total other current assets	**98,581,850**	74,084,738
Trade accounts receivable	**230,383,348**	311,156,649
Less: allowance for impairment	**(27,760,995)**	(26,709,602)
Trade accounts receivable	**202,622,353**	284,447,047

As at December 31, 2014 and 2013 the above assets were non-interest bearing.

As at December 31, 2014 the Group has pledged trade accounts receivable of approximately 32,332,843 thousand tenge as a collateral under its borrowings (2013: 91,914,387 thousand tenge) (*Note 19*).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. TRADE ACCOUNTS RECEIVABLE AND OTHER CURRENT ASSETS (continued)

Movements in the allowance for impairment of trade accounts receivable and other current assets were as follows:

In thousands of tenge	Individually impaired
As at December 31, 2012	**30,772,399**
Charge for the year	6,882,821
Written off	(732,409)
Transfers to assets classified as held for sale	–
Foreign currency translation	1,359,581
Reinstatement	5,959,008
Recovered	(3,348,922)
As at December 31, 2013	**40,892,478**
Charge for the year	3,791,735
Recovered	(2,485,583)
Written off	(2,945,218)
Relates to assets classified as held for sale	(34,464)
Foreign currency translation	4,405,899
Discountinued operations	(10,887)
As at December 31, 2014	**43,613,960**

As at December 31, the ageing analysis of trade accounts receivable is as follows:

			Past due but not impaired				
In thousands of tenge	Total	Neither past due nor impaired	<30 days	30-60 days	61-90 days	91-120 days	>120 days
2014	**202,622,353**	**145,008,510**	**11,304,949**	**13,693,787**	**7,119,467**	**6,457,764**	**19,037,876**
2013	284,447,047	241,533,539	17,888,742	14,033,214	2,930,597	1,127,938	6,933,017

16. SHORT-TERM FINANCIAL ASSETS

In thousands of tenge	2014	2013
Short-term bank deposits	**693,879,434**	809,153,405
Loans due from related parties	**34,769,019**	11,237,901
Less: allowance for impairment of loans to related parties	**(71,379)**	(5,799,179)
	728,577,074	814,592,127

In thousands of tenge	2014	2013
Short-term financial assets in US Dollars	**632,022,609**	534,303,888
Short-term financial assets in tenge	**94,765,444**	280,048,556
Short-term financial assets in other foreign currencies	**1,789,021**	239,683
	728,577,074	814,592,127

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. SHORT-TERM FINANCIAL ASSETS (continued)

As at December 31, 2014, the weighted average interest rate for short-term bank deposits was 1.82% in US Dollars, 7.60% in tenge and 1.08% in other foreign currencies, respectively (2013: 2.13% in US Dollars, 5.47% in tenge and 0.18% in other foreign currencies, respectively).

As at December 31, 2013, short-term bank deposits include 45,080 thousand tenge, 1,000,000 thousand tenge and 17,565,916 thousand tenge placed with BTA Bank, Alliance Bank and Temirbank, respectively. (*Note 32*).

Loans due from related parties are stated at amortized cost.

Movements in allowance for impairment of loans to related parties were as follows:

In thousands of tenge	**Individually impaired**
As at December 31, 2012	**5,807,343**
Recovery of write off	(8,164)
As at December 31, 2013	**5,799,179**
Charge for the year	71,379
Relates to assets classified as held for sale	(5,794,542)
Recovery	(4,637)
As at December 31, 2014	**71,379**

17. CASH AND CASH EQUIVALENTS

In thousands of tenge	**2014**	2013
Term deposits with banks – US Dollars	**549,569,558**	169,904,989
Term deposits with banks – tenge	**125,409,276**	140,218,188
Current accounts with banks – US Dollars	**110,485,878**	35,053,982
Current accounts with banks – tenge	**19,530,382**	36,660,389
Current accounts with banks – other currencies	**10,058,713**	8,657,778
Term deposits with banks – other currencies	**4,620,202**	15,080,167
Cash-on-hand	**3,357,485**	1,751,273
	823,031,494	407,326,766

Term deposits with banks are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group. As at December 31, 2014, the weighted average interest rate for time deposits with banks was 0.73% in US Dollars and 11.35% in tenge, respectively (2013: 0.39% in US Dollars and 6.32% in tenge, respectively).

As at December 31, 2013, cash and cash equivalents placed with BTA Bank, Alliance Bank and TemirBank amounted to 15,319 thousand tenge, 2,687,617 thousand tenge and 541,271 thousand tenge, respectively. (*Note 32*).

As at December 31, 2014 cash and cash equivalents in the amount of 1,007,301 thousand tenge were pledged as collateral (2013: 1,286,330 thousand tenge).

18. EQUITY

Total number of outstanding, issued and paid shares comprises:

	December 31, 2012	Issued in 2013	December 31, 2013	Issued in 2014	December 31, 2014
Number of shares issued and paid, including	**518,157,799**	**7,489,977**	**525,647,776**	**2,843,247**	**528,491,023**
Par value of 500 tenge	458,450,766	–	458,450,766	–	**458,450,766**
Par value of 5,000 tenge	59,707,029	–	59,707,029	–	**59,707,029**
Par value of 27,726.63 tenge	–	–	–	**137,900**	**137,900**
Par value of 838 tenge	1	–	1	–	**1**
Par value of 858 tenge	1	–	1	–	**1**
Par value of 704 tenge	1	–	1	–	**1**
Par value of 592 tenge	1	–	1	–	**1**
Par value of 2,500 tenge	–	7,489,974	7,489,974	**2,705,347**	**10,195,321**
Par value of 2,451 tenge	–	1	1	–	**1**
Par value of 921 tenge	–	1	1	–	**1**
Par value of 1,000 tenge	–	1	1	–	**1**
Share capital (000'tenge), including	**527,760,531**	**18,724,939**	**546,485,470**	**10,586,870**	**557,072,340**
Par value of 27,726.63 tenge	–	–	–	**3,823,502**	**3,823,502**
Par value of 500 tenge	229,225,382	–	229,225,382	–	**229,225,382**
Par value of 5,000 tenge	298,535,145	–	298,535,145	–	**298,535,145**
Par value of 838 tenge	1	–	1	–	**1**
Par value of 858 tenge	1	–	1	–	**1**
Par value of 704 tenge	1	–	1	–	**1**
Par value of 592 tenge	1	–	1	–	**1**
Par value of 2,500 tenge	–	18,724,935	18,724,935	**6,763,368**	**25,488,303**
Par value of 2,451 tenge	–	2	2	–	**2**
Par value of 921 tenge	–	1	1	–	**1**
Par value of 1,000 tenge	–	1	1	–	**1**

As at December 31, 2012, 3,992,971 common shares were authorized but not issued, these shares were issued and paid in 2013, including 3,992,970 common shares with par value of 2,500 tenge each and one share of 1,000 tenge.

Also in 2013, the Company authorized for issue 327,408,826 common shares, of which 3,497,006 common shares were issued and paid that comprise 3,497,004 common shares with par value of 2,500 tenge each, 1 common share with par value of 2,451 tenge and 1 common share with par value of 921 tenge. As consideration for these common shares, the Company received high, medium and low pressure gas pipelines and accompanying constructions, located in West-Kazakhstan, Zhambyl and Aktobe oblasts for the total amount of 9,808,038 thousand tenge and restricted cash in the amount of 8,916,901 thousand tenge.

In 2014 the Company issued and paid 2,843,247 common shares, which comprised 2,705,347 common shares with par value of 2,500 tenge each and 137,900 shares with par value of 27,726.63 tenge. As consideration for these shares the Company received high, medium and low pressure gas pipelines and accompanying constructions located in Kostanay oblast for the amount of 6,763,366 thousand tenge, and in West-Kazakhstan oblast for the amount of 3,823,504 thousand tenge and cash and cash equivalents in the amount of 2 thousand tenge.

As at December 31, 2014, 321,068,573 common shares were authorized, but not issued (2013: 323,911,820 common shares).

18. EQUITY (continued)

Contribution to share capital

In 2014 the Group recognized additional paid in capital in the amount of 207,115,481 thousand tenge, which represents the fair value of gas pipelines contributed by the Parent Company and the Government on trust management terms, which serves as a short-term mechanism until the legal title for pipelines shifts to the Group.

Transactions with the Parent Company

In 2013 the Group received gas pipelines with the fair value of 583,154 thousand tenge, which was recognized as additional paid in capital in the consolidated statement of changes in equity for the year ended December 31, 2013.

During 2014 the Company made a step acquisition of 49% of interest in KazakTurkMunay LLP, the existing 51% joint venture, from TPAO for the consideration of 42,208,301 thousand tenge at the acquisition date and increased its participation interest in KazakhTurkMunay LLP to 100%. The excess of fair value of consideration over fair value of net assets of KTM as of acquisition date was recognized as distribution to the Shareholder due to the fact that the acquisition was made in accordance with the instructions of the Shareholder and Government.

Distributions to the Parent Company

On June 27, 2013 the Interdepartmental Commission for the development of oil, gas and energy industries decided to retain NCEOSRB with the Group. Based on this decision, the Group reversed distribution to the Parent Company in the amount of 13,537,062 thousand tenge recognized in 2012.

In accordance with the development plan for Schuchensko - Borovskoi resort area approved by the Government, the Parent Company obliged the Group to build a golf club in this resort area. The cost of construction and the recoverable amount of this project were estimated in the amount of 19,573,482 thousand tenge and 6,252,494 thousand tenge, respectively. The difference of 13,320,988 thousand tenge between the estimated cost of construction and the recoverable amount was recognized as distribution to the Parent Company in the consolidated statement of changes in equity for the year ended December 31, 2013.

In accordance with the Shareholder resolution, the Group provided sponsorship to finance construction of climatic health resort on coast of Balkhash Lake. As a result, the Group recognized distribution to the Parent Company in the amount of 2,554,420 thousand tenge.

In 2014 the Concession Agreement with the Government was terminated, and the total amount of capitalised improvements made by the Group to the gas pipelines managed under the Concession Agreement were transferred to the Government with the net book value of 83,176,883 thousand Tenge (*Note 7*).

In 2014, the Group accrued a provision for construction of the kindergarten in Astana city in the amount 1,053,206 thousand tenge based on an order of the President of the Republic of Kazakhstan, and reversed a provision for reconstruction of the trade and exhibition center in Moscow city by 2,978,716 thousand tenge (accrued provision in 2013: 3,432,971 thousand tenge) and reversed a provision for costs to be incurred on construction of the History Museum by 2,088,547 thousand tenge and (accrued provision in 2013: 23,551,297) decreased respective distribution to the Parent Company due to changes in estimates. In 2014, the decrease in retained earnings of 1,200,723 thousand tenge represents other distributions to the Parent Company.

Dividends

In 2014 the Group declared dividends to the Shareholder at 158.08 tenge per common share totaling to 83,114,547 thousand tenge (2013: 75.19 tenge per common share totaling to 38,961,363 thousand tenge). As at December 31, 2014 the dividends payable by the Company to the Shareholder is 13,537,062 thousand tenge (2013: nil).

In 2014 the Group declared dividends in the total of 53,891,914 thousand tenge to the holders of non-controlling interest in KMG EP, KTO and other subsidiaries (2013: 43,577,144 thousand tenge). As at December 31, 2014 the dividends payable by the Group to the holders of non-controlling interest of 1,986,911 thousand tenge (2013: 471,240 thousand tenge).

Currency translation reserves

The currency translation reserve is used to record exchange differences arising from the translation of financial statements of the subsidiaries and joint ventures and associates whose functional currency is not Kazakhstani tenge and whose financial results are included in these consolidated financial statements in accordance with the accounting policy.

18. EQUITY (continued)

Non-controlling interest

The following tables illustrate information of subsidiaries in which the Group has significant non-controlling interests:

	Country of incorporation and operation	2014		2013	
		Share	Carrying value	Share	Carrying value
KazMunayGas Exploration Production JSC	Kazakhstan	**36.79%**	**492,633,617**	36.78%	504,354,642
KazTransOil JSC	Kazakhstan	**10.00%**	**36,194,881**	10.00%	34,452,183
Rompetrol Rafinare S.A.	Romania	**45.37%**	**140,399**	45.37%	24,470,078
Rompetrol Downstream S.R.L.	Romania	**45.37%**	**24,793,352**	45.37%	20,437,441
Rompetrol Petrochemicals S.R.L.	Romania	**45.37%**	**7,382,722**	45.37%	7,460,843
Rompetrol Vega	Romania	**45.37%**	**(12,400,519)**	45.37%	(9,130,586)
Other			**6,417,972**		4,510,413
			555,162,424		586,555,014

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which the Group has significant non-controlling interests as at December 31, 2014 and for the year then ended:

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Petrochemicals S.R.L.	Rompetrol Vega	Rompetrol Downstream S.R.L.
Summarised statement of financial position						
Non-current assets	578,602,161	372,337,29	166,969,45	3,544,054	11,983,308	65,459,240
Current assets	905,192,425	99,649,31	79,454,63	15,007,770	4,400,835	52,630,404
Non-current liabilities	(39,796,779)	(59,653,573	(38,649,083	(1,916,134)	(12,265,408)	(7,825,915)
Current liabilities	(104,880,635)	(50,384,226	(207,465,613	(364,153)	(31,449,540)	(55,619,121)
Total equity	1,339,117,172	361,948,80	309,39	17,383,488	(27,330,805)	54,644,608
Attributable to:						
Equity holder of the Parent Company	846,483,555	325,753,92	168,99	8,888,815	(14,930,287)	29,851,256
Non-controlling interest	492,633,617	36,194,88	140,39	7,382,722	(12,400,518)	24,793,352
Summarised statement of comprehensive income						
Revenue	844,215,733	207,023,26	722,124,59	6,490,620	43,539,407	309,631,898
Profit / (loss) for the year from continuing operations	**49,719,910**	**55,347,92**	**(62,596,718**	**(3,149,504)**	**(3,378,549)**	**1,084,492**
Total comprehensive income / (loss) for the year, net of tax	**102,798,501**	**59,352,24**	**(53,614,481**	**(172,179)**	**(7,205,839)**	**9,600,438**
Attributable to:						
Equity holder of the Parent Company	64,984,221	53,417,02	(29,284,802	(94,058)	(3,935,906)	5,244,527
Non-controlling interest	37,814,280	5,935,22	(24,329,679	(78,121)	(3,269,933)	4,355,911
Dividends declared to non-controlling interests	(49,543,281)	(4,192,528				
Summarised cash flow information						
Operating activity	196,403,632	93,908,13	9,789,68	7,463,980	111,994	6,232,049
Investing activity	(20,662,293)	(35,342,602	(6,159,835	(3,186,894)	(152,132)	(3,810,117)
Financing activity	(130,087,970)	(42,036,157	(15,408,548	(4,625,073)	23,653	(8,518,693)
Net increase / (decrease) in cash and cash equivalents	**45,653,369**	**16,529,37**	**(11,778,696**	**(347,987)**	**(16,485)**	**(6,096,761)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. EQUITY (continued)

Non-controlling interest (continued)

The following tables illustrate summarized financial information of subsidiaries, in which the Group has significant non-controlling interests as at December 31, 2013 and for the year then ended:

In thousands of tenge	KazMunayGas Exploration Production JSC	KazTransOil JSC	Rompetrol Rafinare S.A.	Rompetrol Petrochemicals S.R.L.	Rompetrol Vega	Rompetrol Downstream S.R.L.
Summarised statement of financial position						
Non-current assets	666,034,327	319,084,295	182,210,957	4,966,745	10,350,856	55,642,186
Current assets	928,790,706	123,617,335	106,060,793	27,428,755	6,486,950	55,337,234
Non-current liabilities	(39,375,707)	(48,560,145)	(35,249,655)	(1,702,920)	(10,345,787)	(7,486,491)
Current liabilities	(184,356,138)	(49,619,641)	(199,098,222)	(14,248,864)	(26,612,779)	(58,448,759)
Total equity	1,371,093,188	344,521,844	53,923,873	16,443,716	(20,120,760)	45,044,170
Attributable to:						
Equity holder of the Parent Company	866,738,546	310,069,661	29,453,795	8,982,873	(10,990,174)	24,606,729
Non-controlling interest	504,354,642	34,452,183	24,470,078	7,460,843	(9,130,586)	20,437,441
Summarised statement of comprehensive income						
Revenue	815,996,549	190,021,671	535,643,036	38,197,105	33,767,079	265,095,196
Profit / (loss) for the year from continuing operations	**139,147,272**	**83,489,936**	**(24,668,944)**	**5,162,988**	**765,366**	**(2,342,193)**
Total comprehensive income / (loss) for the year, *net of tax*	***143,647,070***	***83,075,462***	***(24,668,944)***	***5,162,988***	***765,366***	***(2,342,193)***
Attributable to:						
Equity holder of the Parent Company	89,984,364	74,916,692	(13,474,441)	2,820,437	418,051	(1,279,493)
Non-controlling interest	53,662,706	8,158,770	(11,194,503)	2,342,551	347,315	(1,062,700)
Dividends declared to non-controlling interests	(40,591,057)	(2,884,768)	–	–	–	–
Summarised cash flow information						
Operating activity	98,432,000	95,859,018	16,899,865	(19,005,297)	197,769	8,369,280
Investing activity	(22,887,000)	(60,320,044)	(17,211,693)	21,055,096	(498,226)	(547,059)
Financing activity	(111,058,000)	(28,847,670)	(8,914,296)	(2,472,721)	282,505	(4,485,553)
Net increase / (decrease) in cash and cash equivalents	**(35,513,000)**	**6,691,304**	**(9,226,124)**	**(422,922)**	**(17,952)**	**3,336,668**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. BORROWINGS

In thousands of tenge	2014	2013
Fixed interest rate borrowings	**2,284,707,172**	1,638,355,440
Weighted average interest rates	**7.12%**	7.09%
Variable interest rate borrowings	**813,013,235**	668,787,410
Weighted average interest rates	**9.00%**	3.94%
	3,097,720,407	2,307,142,850

In thousands of tenge	2014	2013
US Dollar - denominated borrowings	**2,744,878,020**	2,033,475,198
Tenge - denominated borrowings	**310,855,387**	237,962,390
Euro - denominated borrowings	**29,588,111**	33,042,893
Other currency - denominated borrowings	**12,398,889**	2,662,369
	3,097,720,407	2,307,142,850

In thousands of tenge	2014	2013
Current portion	**670,529,840**	301,710,769
Non-current portion	**2,427,190,567**	2,005,432,081
	3,097,720,407	2,307,142,850

On October 30, 2009, the Group issued bonds at KASE in the amount of 120,000,000 thousand tenge, which were acquired by JSC Development Bank of Kazakhstan ("DBK"). These bonds are recorded at amortized cost using effective interest rate of 8.96%. During 2014, the Group repurchased portion of these bonds in the amount of 17,974,791 thousand tenge (2013: 16,108,797 thousand tenge). As at December 31, 2014 the carrying value of these bonds, including interest payable, was equal to 100,620,033 thousand tenge (2013: 102,042,966 thousand tenge) *(Note 32)*.

On November 9, 2010, the Group issued bonds at KASE in the amount of 100,000,000 thousand tenge maturing in 2017. These bonds are recorded at amortized cost using effective interest rate of 7%. As at December 31, 2014 the carrying value of these bonds was equal to 82,525,396 thousand tenge (2013: 77,126,538 thousand tenge).

In 2008, 2009 and 2010 KazMunayGas Finance Sub B.V., a subsidiary of Cooperative KazMunayGas PKI U.A., raised funds through issue of bonds at London Stock Exchange ("LSE") in the total amount of 7,303.1 million US Dollars. In November 2010, the Company was registered as the issuer of the above bonds in total amount of 7,300 million US Dollar at LSE. As at December 31, 2014 the carrying value of these bonds, including interest payable, was equal to *1,076,786,287 thousand tenge (2013: 904,830,899 thousand tenge).*

On April 30, 2013 the Company issued additional bonds at LSE in the total amount of 3 billion US Dollars within the current program of global medium-term notes issuance up to10.5 billion US Dollars on the following terms:

- 2 billion US Dollars with the interest rate of 5.75% per annum maturing in 2043 and an offering price of 99.293% from the nominal amount;
- 1 billion US Dollars with the interest rate of 4.4% per annum maturing in 2023 and an offering price of 99.6% from the nominal amount.

The coupon on the bonds issued in 2013 is paid on the semi-annual basis starting from October 30, 2013. As at December 31, 2014 the carrying amount of these bonds, including interest payable, was equal to 547,957,516 thousand tenge (2013: 461,486,358 thousand tenge).

19. BORROWINGS (continued)

On November 7, 2014 the Company issued additional bonds at LSE in the total amount of 1,5 billion US Dollars within the current program of global medium-term notes issuance up to10.5 billion US Dollars on the following terms:

- 1 billion US Dollars with the interest rate of 6.10% per annum maturing in 2044 and an offering price of 98.631% from the nominal amount;
- 0,5 billion US Dollars with the interest rate of 4.95% per annum maturing in 2025 and an offering price of 99.392% from the nominal amount.

The coupon on the bonds issued in 2014 is paid on the semi-annual basis starting from 7 May 2015. As at 31 December 2014 the carrying amount of these bonds, including interest payable, was equal to 272,170,479 thousand tenge.

In 2011 Intergas Finance B.V., a subsidiary of KazTransGas JSC, raised funds through issue of bonds at LSE in the total amount of 540 million US Dollars, maturing in May 2017. As at December 31, 2014 the carrying value of these bonds, including interest payable, was equal to 98,162,420 thousand tenge (2013: 82,527,839 thousand tenge).

In June 2012 for the purpose of acquisition of 5% interest in the Karachaganak FPSA, through acquisition of 50% in Karachaganak (former "FPSAIMC"), the Group, Agip Karachaganak B.V., BG Karachaganak Limited, Chevron International Petroleum Company, Lukoil Overseas Karachaganak B.V. ("Consortium") concluded a loan agreement for the total amount of 1 billion US Dollars with the interest rate 1.25*(Libor+3%) per annum, loan is payable by equal monthly instalments during three years using cash inflows of the Karachaganak FPSA. Under this agreement the Group has undertaken to provide the collateral in the form of 5% interest in the Karachaganak FPSA to the Consortium. The loan is also guaranteed by the Shareholder. As at December 31, 2014 the carrying value of this loan, including interest payable, was equal to 35,549,930 thousand tenge (2013: 81,293,206 thousand tenge). The Group's property, plant and equipment with value of 148,900,000 thousand tenge (2013: 148,900,000 thousand tenge) was pledged to Consortium as loan collateral.

In 2010 and 2013, Atyrau Oil Refinery LLP ("ANPZ"), the subsidiary of KMG RM, entered into the credit line agreements for the total amount of 1,315,642 thousand US Dollars with DBK. The credit line is used to finance the construction of the aromatic hydrocarbon complex. During 2014 ANPZ received 232,698 thousand US Dollars (40,631,886 thousand tenge) (2013: 227,544 thousand US Dollars or 34,597,470 thousand tenge). As at December 31, 2014 the Group's liabilities on the principal and accrued interest payable under these credit lines totaled to 242,862,115 thousand tenge (2013: 160,084,403 thousand tenge) (Note 32). The Group's property, plant and equipment with carrying value of 266,036,463 thousand tenge (2013: 210,787,854 thousand tenge) was pledged to DBK as loan collateral.

During 2014, KMGI repaid its borrowings from several banks (JP Morgan, Citibank, Unicredit and RBS) for the total amount of 250,000 thousand US Dollars (45,587,500 thousand tenge) and entered into new loan agreements for the total amount of 200,000 thousand US Dollars (36,470,000 thousand tenge) with other banks (Raiffeisen Bank International AG, Banca Comercial Romana, ING Bank Amsterdam and Unicredit Tiriac Bank SA). As at December 31, 2014 the carrying value of KMGI's these borrowings, including interest payable, was equal to 36,586,237 thousand tenge (2013: 38,040,409 thousand tenge). The Group's property, plant and equipment with carrying value of 242,780,790 thousand tenge (2013: 222,031,273 thousand tenge) was pledged for KMGI borrowings as loan collateral.

In 2014 the Group entered into several loan agreements with Halyk Bank to increase the working capital and received 24,052,903 thousand tenge. As at December 31, 2014 the carrying value of this loan, including interest payable, was equal to 23,879,148 thousand tenge (2013: nil).

In 2014 the Group received a loan for the amount 400,000 thousand US Dollars (72,348,000 thousand tenge) with interest rate of 3.5% +12 months Libor from OOO "Sberbank Russia". Purpose of the credit line was to finance reconstruction of the oil refining plant in Shymkent city. As at December 31, 2014 the carrying value of this loan, including interest payable, was equal to 73,472,531 thousand tenge (2013: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. BORROWINGS (continued)

As at December 31, 2014 there were loans payable to the partners on Pearls, N, Zhambyl and Satpayev exploration projects in the amount of 100,449,892 thousand tenge (2013: 74,345,200 thousand tenge) that originated under the carry-in financing agreements. In accordance with these agreements, exploration costs on these projects are financed by the project partners other than the Group. The share of financing for costs incurred under these projects attributable to the Group interest is recorded within borrowings. Interest on loans on Pearls and Zhambyl projects is accrued at rates LIBOR+1%, LIBOR+2.5% and LIBOR+1.5%, respectively.

Hedge of net investment in the foreign operations

As at December 31, 2014 certain borrowings denominated in foreign currency were designated as hedge instrument for the net investment in the foreign operations. In 2014, losses of 311,794,785 thousand tenge on the translation of these borrowings were transferred to other comprehensive income and offset the gains on translation of the net investments in the foreign operations.

20. PAYABLE FOR THE ACQUISITION OF ADDITIONAL INTEREST IN NORTH CASPIAN PROJECT ("NCP")

On October 31, 2008, all participants of the NCP signed an agreement according to which all project participants except for KMG Kashagan B.V., 100% subsidiary of the Group, agreed to partially sell their interest in this project on a proportional basis to increase the interest of KMG Kashagan B.V. in the NCP from 8.33% to 16.81% retrospectively from January 1, 2008. The acquisition cost was equal to 1.78 billion US Dollars plus annual compound interest at LIBOR + 3%. Interest acquired of 8.48% was pledged as collateral for this liability. As at December 31, 2014 the amortized cost of this payable was 396,345,201 thousand tenge (2013: 322,329,783 thousand tenge). As at December 31, 2014, the carrying value of pledged assets (property, plant and equipment and exploration and evaluation assets) equal to 949,250,642 thousand tenge (2013: 762,280,255 thousand tenge).

According to the Secondary Supplement ("SS") to the North Caspian Production Sharing Agreement ("NCPSA"), the Group is committed to the additional payment of production bonus related to the Kashagan commercial production. The Group recognized a related financial liability for the production bonus using the management's best estimate that oil production at Kashagan field starts by 2016. Production bonus is paid according to the schedule under the SS to the NCPSA in the specified form for each deferred quarter. The initial amount of the bonus of 150 million US Dollars was paid by the contractors to the NCPSA in November 2008. During 2014 the Group paid bonus in the amount of 20,259 thousand US Dollars (3,082,002 thousand tenge). As of December 31, 2014 the fair value of these obligations approximate their book value.

21. PROVISIONS

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Provision for gas transportation	Employee benefit obligations	Other	Total
As at December 31, 2012	**59,443,369**	**33,642,799**	**15,558, 792**	–	**19,658,654**	**21,413,166**	**149,716,780**
Foreign currency translation	485,097	307,404	–	–	7,148	119,003	**918,652**
Change in estimate	(8,050,959)	(260,085)	–	–	–	–	**(8,311,044)**
Unwinding of discount	2,853,523	1,256,954	–	–	–	–	**4,110,477**
Provision for the year	3,566,400	3,157,325	11,272,666	21,267,496	3,935,848	40,383,074	**83,582,809**
Unused amounts reversed	(88,388)	(242,343)	(553,223)	–	–	(2,208,095)	**(3,092,049)**
Use of provision	(1,031,817)	(1,022,517)	(6,048,106)	–	(1,474,474)	(9,490,294)	**(19,067,208)**
As at December 31, 2013	**57,177,225**	**36,839,537**	**20,230,129**	**21,267,496**	**22,127,176**	**50,216,854**	**207,858,417**
Foreign currency translation	4,273,322	2,877,599	228,788	–	(279,321)	738,511	**7,838,899**
Change in estimate	10,161,271	1,110,412	12,076	(9,580,077)	–	(992,560)	**711,122**
Unwinding of discount	4,282,294	1,098,591	–		–	37,278	**5,418,163**
Provision for the year	38,798,443	46,332	10,938,187	5,507,927	7,297,182	4,450,856	**67,038,927**
Acquisition of subsidiary	424,322	–	831,262	–	–	–	**1,255,584**
Transfers to assets classified as held for sale	–	(14,190)	–	–	–	(32,792)	**(46,982)**
Recovered	–	(8)	(904,033)	–	–		**(904,041)**
Unused amounts reversed	–	(57,341)	(3,483,440)	–	–	(7,552,536)	**(11,093,317)**
Use of provision	(1,092,586)	(2,277,487)	(12,135,618)	(3,866,678)	(1,554,697)	(23,289,204)	**(44,216,270)**
As at December 31, 2014	**114,024,291**	**39,623,445**	**15,717,351**	**13,328,668**	**27,590,340**	**23,576,407**	**233,860,502**

As at December 31, 2014 other provisions include provision for reconstruction of the trade and exhibition center in the amount of 6,134,052 thousand tenge (2013: 9,195,613 thousand tenge) and provision for construction of golf club in the amount of 13,320,988 thousand tenge (2013: 13,320,988 thousand tenge). In 2014 the provision for construction of History Museum of Kazakhstan in Astana in the amount of 17,743,360 thousand tenge was used, the remaining amount of provision in the amount of 2,088,547 thousand tenge was reversed through retained earnings, and as at December 31, 2014 the provision was 43,448 thousand tenge (2013: 19,875,351 thousand tenge).

Provision for gas transportation relates to the Group's commitment on reimbursement of losses incurred by PetroChina. Under the agreement on gas borrowing the Group has commitments to PetroChina to reimburse the supported costs and losses incurred by PetroChina due to gas borrowing and its return (*Note 35*).

Current portion and long-term portion are segregated as follows:

In thousands of tenge	Asset retirement obligations	Provision for environmental obligation	Provision for taxes	Provision for gas transportation	Employee benefit obligations	Other	Total
As at December 31, 2014							
Current portion	963,674	9,147,849	5,879,568	13,328,668	1,745,170	19,264,588	**50,329,517**
Long-term portion	113,060,617	30,475,596	9,837,783	–	25,845,170	4,311,819	**183,530,985**
Provision as at December 31, 2014	**114,024,291**	**39,623,445**	**15,717,351**	**13,328,668**	**27,590,340**	**23,576,407**	**233,860,502**
As at December 31, 2013							
Current portion	1,160,568	6,941,759	20,230,129	21,267,496	1,352,359	42,321,291	**93,273,602**
Long-term portion	56,016,657	29,897,778	–	–	20,774,817	7,895,563	**114,584,815**
As at December 31, 2013	**57,177,225**	**36,839,537**	**20,230,129**	**21,267,496**	**22,127,176**	**50,216,854**	**207,858,417**

A description of significant provisions, including critical estimates and judgments used, is included in *Note 4*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

In thousands of tenge	2014	2013
Advances received	**28,636,744**	38,470,634
Due to employees	**34,067,977**	29,962,274
Other	**85,076,791**	50,764,773
Total other current liabilities	**147,781,512**	119,197,681
Trade accounts payable	**233,653,734**	225,091,612

As at December 31, 2014 trade payables of KTO to Georgian railways were guaranteed with certain items of property, plant and equipment with carrying value of 9,117,500 thousand tenge (50 million US Dollars).

Trade accounts payable is denominated in the following currencies as of December 31:

In thousands of tenge	2014	2013
Tenge	**99,551,276**	97,324,688
US Dollars	**93,136,154**	86,783,184
Euro	**14,452,671**	19,414,475
Other currency	**26,513,633**	21,569,265
Total	**233,653,734**	225,091,612

As at December 31, 2014 and 2013, trade accounts payable and other current liabilities were not interest bearing.

23. OTHER TAXES PAYABLE

In thousands of tenge	2014	2013
Rent tax on crude oil export	**18,621,215**	38,273,745
Mineral extraction tax	**15,873,564**	23,008,726
Excise tax	**13,306,668**	14,086,448
VAT	**13,545,045**	12,405,653
Special fund on petroleum products	**1,363,249**	1,300,616
Other	**17,824,437**	20,568,209
	80,534,178	109,643,397

24. REVENUE

In thousands of tenge	2014	2013
Sales of refined products	**2,073,144,005**	2,106,494,111
Sales of crude oil	**697,391,305**	735,440,540
Transportation fee	**289,823,593**	263,386,141
Sales of gas and gas products	**266,232,665**	229,533,352
Other revenue	**252,326,929**	206,155,458
Less: sales taxes and commercial discounts	**(392,154,807)**	(293,292,796)
	3,186,763,690	3,247,716,806

Revenues are generated from the Group's principal operations, which essentially represent upstream production of hydrocarbons and transportation of crude oil and gas within Kazakhstan, and marketing and sales of crude oil, gas and oil products in Kazakhstan, Europe and Far East.

25. COST OF SALES

In thousands of tenge	2014	2013
Materials and supplies	**1,498,096,059**	1,667,697,294
Payroll	**263,852,732**	205,164,138
Depreciation, depletion and amortization	**181,208,458**	149,326,637
Mineral extraction tax	**89,435,380**	84,511,125
Electricity	**46,682,699**	43,456,322
Repair and maintenance	**33,053,396**	37,409,679
Other taxes	**46,361,417**	33,964,501
Realized loss from derivatives on petroleum products	**(2,618,352)**	(2,185,519)
Unrealized gain from derivatives on petroleum products	**(6,621,755)**	675,161
Other	**172,711,860**	127,811,798
	2,322,161,894	2,347,831,136

26. GENERAL AND ADMINISTRATIVE EXPENSES

In thousands of tenge	2014	2013
Payroll	**63,111,825**	55,226,508
Other taxes	**10,316,742**	17,300,869
Depreciation and amortization	**15,112,208**	17,005,594
Consulting services	**14,473,337**	10,553,304
Charitable donations and sponsorship	**12,505,199**	8,711,581
VAT that cannot be offset	**3,175,298**	7,167,511
Social payments, out of payroll	**7,000,241**	2,235,560
Fines and penalties	**2,945,755**	5,594,518
Allowance for impairment of trade accounts receivable	**2,272,970**	–
Allowance for impairment of other current assets	**(966,818)**	3,533,899
Allowance / (reversal) for impairment of loans given	**66,742**	(8,164)
Allowance for obsolete inventories	**(1,517,304)**	1,355,756
Other	**45,224,125**	33,499,407
	173,720,320	162,176,343

27. TRANSPORTATION AND SELLING EXPENSES

In thousands of tenge	2014	2013
Rent tax on crude oil export	**152,623,343**	165,306,665
Customs duty	**87,214,906**	59,442,916
Transportation	**60,002,615**	57,008,050
Payroll	**20,741,998**	17,976,851
Depreciation and amortization	**13,142,517**	12,585,295
Other	**25,148,894**	19,844,545
	358,874,273	332,164,322

28. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS, OTHER THAN GOODWILL, NET

In thousands of tenge	2014	2013
Property, plant and equipment (*Note 4*)	**320,210,033**	60,075,881
Intangible assets (*Note 10*)	**995,211**	(2,406,696)
	321,205,244	62,482,577

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. FINANCE INCOME / FINANCE COST

Finance income

In thousands of tenge	2014	2013
Interest income on bank deposits, loans and bonds	**46,767,697**	34,712,451
Other	**8,723,180**	7,661,891
	55,490,877	42,374,342

Finance costs

In thousands of tenge	2014	2013
Interest on loans and debt securities issued	**151,761,829**	131,819,722
Interest on payable for the acquisition of additional interest in North Caspian Project	**13,470,966**	13,169,787
Amortization of discount on loans and debt securities issued	**8,538,370**	5,377,217
Unwinding of discount on asset retirement obligations	**5,452,009**	2,853,523
Other	**23,247,518**	18,302,003
	202,470,692	171,671,297

30. SHARE IN PROFIT OF JOINT VENTURES AND ASSOCIATES, NET

In thousands of tenge	2014	2013
Tengizchevroil LLP	**315,828,439**	295,907,674
Mangistau Investments B.V.	**56,938,910**	56,518,919
KazGerMunay LLP	**35,436,337**	43,215,865
PetroKazakhstan Inc.	**23,007,838**	23,746,610
KazRosGas LLP	**29,483,690**	22,335,042
Kazakhoil-Aktobe LLP	**2,077,814**	11,714,677
Asian Gaspipelines LLP	**(24,252,306)**	22,835,547
Beineu-Shymkent Pipelines LLP	**(13,860,926)**	(1,690,432)
Share in profit of other joint ventures and associates	**3,197,661**	8,933,488
	427,857,457	483,517,390

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES

As at December 31, 2014 income taxes prepaid the amount of 42,744,212 thousand tenge (2013: 52,345,584 thousand tenge) are represented by corporate income tax. As at December 31, 2014 income taxes payable in the amount of 2,250,849 thousand tenge (2013: 55,365,055 thousand tenge) are represented mainly by corporate income tax.

Income tax expense comprised the following for the years ended December 31:

In thousands of tenge	2014	2013* Restated
Current income tax:		
Corporate income tax	**114,793,699**	125,122,197
Excess profit tax	**11,533,970**	8,475,272
Withholding tax on dividends and interest income	**30,884,087**	52,364,064
Deferred income tax:		
Corporate income tax	**(66,712,702)**	(4,964,717)
Excess profit tax	**(1,783,783)**	5,126,050
Withholding tax on dividends and interest income	**28,385,771**	7,077,272
Income tax expenses	**117,101,042**	193,200,138

According to the 2006 amendments to the tax legislation, which were effective starting from the fiscal years beginning on January 1, 2007, dividends received from Kazakhstan taxpayers were exempt from income tax withheld at the source of payment. Therefore, in 2006 the Group reversed the deferred tax liability on undistributed profits of subsidiaries, joint ventures and associates registered in the Republic of Kazakhstan, which was recognized in prior years. However, during 2007-2014 the Group was receiving dividends from Tengizchevroil LLP (20% joint venture of the Group, a Kazakhstan taxpayer) net of withholding tax since there is uncertainty whether the withholding tax exemption is applicable for the stable tax regime of Tengizchevroil LLP. The Group was challenging withholding of the tax on those dividends, but has not managed to convince Tengizchevroil LLP and the tax authorities that withholding tax should not be applied.

Therefore, Management of the Group recognizes the deferred income tax withholding on its interest in undistributed retained earnings of Tengizchevroil LLP as its current best estimate is that the Group will continue to receive dividends net of withholding tax in future years.

A reconciliation of income tax expenses applicable to profit before income tax at the statutory income tax rate (20% in 2014 and 2013) to income tax expenses was as follows for the years ended December 31:

In thousands of tenge	2014	2013
Profit before income tax from continuing operations	**319,498,526**	683,587,300
Loss before income tax from discontinued operations	**(3,101,537)**	(1,549,184)
Statutory tax rate	**20%**	20%
Income tax expense on accounting profit	**63,279,398**	136,407,623
Share in profit of joint ventures and associates non-taxable or taxable at different rates	**(38,197,226)**	(52,317,327)
Other non-deductible expenses and non-taxable income	**74,398,810**	38,169,329
Excess profit tax	**9,750,187**	13,601,322
Effect of different corporate income tax rates	**(9,076,641)**	15,929,183
Change in unrecognized deferred tax assets	**17,027,369**	41,410,008
	117,181,897	193,395,929
Income tax expenses reported in the consolidated statement of comprehensive income	**117,101,042**	193,200,138
Income tax expense attributable to discontinued operations	**80,855**	195,791
	117,181,897	193,395,929

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES (continued)

Deferred tax balances, calculated by applying the statutory tax rates effective at the respective reporting dates to the temporary differences between the tax basis of assets and liabilities and the amounts reported in the consolidated financial statements, are comprised of the following at December 31:

In thousands of tenge	2014 Corporate income tax	2014 Excess profit tax	2014 Withholding tax	2014 Total	2013 Corporate income tax	2013 Excess profit tax	2013 Withholding tax	2013 Total
Deferred tax assets								
Property, plant and equipment	71,109,926	(1,618,658)	–	69,491,268	6,532,029	(1,902,196)	–	4,629,833
Tax loss carryforwards	145,514,801	–	–	145,514,801	119,380,195	–	–	119,380,195
Employee related accruals	5,350,788	107,123	–	5,457,911	5,555,784	95,878	–	5,651,662
Impairment of financial assets	–	–	–	–	1,126,436	–	–	1,126,436
Environmental liability	3,538,679	8,912	–	3,547,591	88,164	–	–	88,164
Other	30,193,993	1,774,020	–	31,968,013	31,864,745	1,405,909	–	33,270,654
Less: unrecognized deferred tax assets	(133,100,251)	–	–	(133,100,251)	(121,422,148)	–	–	(121,422,148)
Less: deferred tax assets offset with deferred tax liabilities	(29,747,849)	–	–	(29,747,849)	(12,720,480)	(315,782)	–	(13,036,262)
Deferred tax assets	92,860,087	271,397	–	93,131,484	30,404,725	(716,191)	–	29,688,534
Deferred tax liabilities								
Property, plant and equipment	139,083,781	176,999	–	139,260,780	122,728,199	1,090,314	–	123,818,513
Undistributed earnings of joint venture	–	–	75,167,886	75,167,886	–	–	46,782,115	46,782,115
Other	10,112,809	–	–	10,112,809	426,724	–	–	426,724
Less: deferred tax assets offset with deferred tax liabilities	(29,747,849)	–	–	(29,747,849)	(12,720,480)	(315,782)	–	(13,036,262)
Deferred tax liabilities	119,448,741	176,999	75,167,886	194,793,626	110,434,443	774,532	46,782,115	157,991,090
Net deferred tax liability / (asset)	26,588,654	(94,398)	75,167,886	101,662,142	80,029,718	1,490,723	46,782,115	128,302,556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. INCOME TAX EXPENSES (continued)

Deferred corporate income tax and excess profit tax are determined with reference to individual subsoil use contracts. Deferred corporate income tax is also determined for activities outside of the scope of subsoil use contracts. A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax asset arising mainly from tax losses carry forward amounted to 133,100,251 thousand tenge as at December 31, 2014 (2013: 121,422,148 thousand tenge).

Tax losses carryforwards as at December 31, 2014 in the Republic of Kazakhstan expire for tax purposes ten years from the date they are incurred.

The movements in the deferred tax liability / (asset) were as follows:

In thousands of tenge	2014 Corporate income tax	2014 Excess profit tax	2014 Withholding tax	2014 total	2013 Corporate income tax	2013 Excess profit tax	2013 Withholding tax	2013 Total
Net deferred tax liability / (asset) as at January 1,	80,029,718	1,490,723	46,782,115	128,302,556	84,309,565	(3,635,327)	39,704,843	120,379,081
Foreign currency translation	7,852,056	198,662	–	8,050,718	371,838	–	–	371,838
Discontinued operations	1,901,546	–	–	1,901,546	540,540	–	–	540,540
Acquisition of subsidiary	3,490,610	–	–	3,490,610	–	–	–	–
Charge to the consolidated statement of comprehensive income	(66,685,276)	(1,783,783)	28,385,771	(40,083,288)	(5,192,225)	5,126,050	7,077,272	7,011,097
Net deferred tax liability / (asset) as at December 31,	26,588,654	(94,398)	75,167,886	101,662,142	80,029,718	1,490,723	46,782,115	128,302,556

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

32. RELATED PARTY DISCLOSURES

Related party transactions were made on terms agreed to between the parties that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following table provides the balances of transactions with related parties as at December 31, 2014 and 2013:

In thousands of tenge		Due from related parties	Due to related parties	Cash and deposits placed with related parties *(Notes 11, 16 and 17)*	Borrowings payable to related parties *(Note 19)*
Samruk-Kazyna entities	**2014**	**50,917,876**	**14,463,719**	**42,440**	**7,192,220**
	2013	47,859,637	782,487	28,346,122	7,027,531
Associates	**2014**	**32,518,279**	**959,303**	**–**	**–**
	2013	42,390,553	1,941,683	–	–
Other related parties	**2014**	**222,000**	**7,043,212**	**2,900,878**	**376,939,528**
	2013	–	–	1,025,970	278,318,367
Joint ventures in which the Group is a venturer	**2014**	**177,799,485**	**37,412,654**	**–**	**–**
	2013	42,163,076	30,635,788	–	–

Due from related parties

As at December 31, 2014, due from related parties mainly included bonds receivable from the Parent Company with the carrying amount of 41,585,896 thousand tenge (2013: 41,362,676 thousand tenge). These bonds are maturing in 2044 and coupon rate is 4% per annum.

As at December 31, 2014 and 2013 due from associates mainly included note receivable from Caspian Pipeline Consortium in the amount of 28,237,627 thousand tenge (2013: 22,411,853 thousand tenge). Also as at December 31, 2013 due from associates included dividends receivable from PKI in the amount of 19,262,694 thousand tenge (2014: nil).

As at December 31, 2014 and 2013 due from joint ventures mainly include loans receivable, which are presented within long-term and short-term loans receivable from related parties in the consolidated statement of financial position and trade accounts receivable originated in the normal course of business in the amount of 134,019,135 thousand tenge (2013: 25,722,240 thousand tenge) and 43,780,350 thousand tenge (2013: 16,440,836 thousand tenge), respectively.

Due to related parties

As at December 31, 2014 due to Samruk-Kazyna entities mainly include Company's dividends payable to the Parent Company in the amount of 13,537,062 thousand tenge (2013: nil).

As at December 31, 2014 due to joint ventures mainly include trade payable to Kazakhoil Aktobe LLP, Asia Gas Pipeline LLP, Mangistaumunaigas JSC and BeineuShymkent Pipleines LLP in the amount of 3,063,775 thousand tenge, 14,005,552 thousand tenge and 5,719,794 thousand tenge and 7,290,612 thousand tenge, respectively (2013: 11,405,648 thousand tenge, 4,474,917 thousand tenge, 5,795,937 thousand tenge, and 52,008 thousand tenge, respectively).

Cash and deposits placed with related parties

As at December 31, 2013 balances with related parties mainly represented current accounts and deposits placed with Alliance Bank JSC, BTA Bank JSC and Temirbank JSC that were controlled by Samruk-Kazyna. As at December 31, 2014 the control of Samruk-Kazyna over Alliance Bank JSC, BTA Bank JSC and Temirbank JSC was ceased.

Borrowings payable to related parties

As at December 31, 2014, borrowings payable to Samruk-Kazyna entities mainly included loans payable to the Parent Company with the carrying amount of 7,094,210 thousand tenge and interest rate of 7.99% per annum (2013: 6,881,519 thousand tenge).

As at December 31, 2014, borrowings payable to other related parties mainly included bonds and loans payable to DBK with the total carrying amount of 372,031,313 thousand tenge (2013: 274,184,930 thousand tenge).

32. RELATED PARTY DISCLOSURES (continued)

The following table provides the total amount of transactions, which have been entered into with related parties during 2014 and 2013:

In thousands of tenge		Sales to related parties	Purchases from related parties	Interest earned from related parties	Interest incurred to related parties
	2014	**49,222,941**	**30,745,408**	**5,553,853**	**560,142**
Samruk-Kazyna entities	2013	38,718,226	29,831,974	5,571,239	563,264
Associates	**2014**	**8,242,441**	**14,288,425**	**–**	**–**
	2013	11,982,106	2,455,162	–	–
Other related parties	**2014**	**105,722**	**180,108**	**415,978**	**27,273,869**
	2013	37,884	163,640	–	9,802,083
Joint ventures in which the Group is a venturer	**2014**	**241,420,770**	**124,373,595**	**8,903,405**	**676,360**
	2013	181,133,773	166,989,590	5,715,592	4,383,308

Purchase transactions with Samruk-Kazyna, other state-controlled entities and joint ventures are mainly represented by transactions of the Group with NC Kazakhstan Temir Zholy JSC (railway services), NC Kazakhtelecom JSC (telecommunication services), NAC Kazatomprom JSC (energy services), KEGOC JSC (energy supply), Kazpost JSC (postal services) and Samruk-Energo JSC (energy supply). In addition, the Group sells and purchases crude oil and natural gas, refined products and provides transportation services to and from Samruk-Kazyna entities, associates and joint ventures.

Key management employee compensation

Total compensation to key management personnel included in general and administrative expenses in the accompanying consolidated statement of comprehensive income was equal to 5,536,329 thousand tenge and 5,372,294 thousand tenge for the years ended December 31, 2014 and 2013, respectively. Compensation to key management personnel consists of contractual salary and performance bonus based on operating results.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES

The Group's principal financial instruments mainly consist of borrowings, cash and cash equivalents, short term bank deposits as well as accounts receivable and accounts payable. The Group is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Group further monitors the market risk and liquidity risk arising from all financial instruments.

Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate, currency, and securities, all of which are exposed to general and specific market movements. The Group manages market risk through periodic estimation of potential losses that could arise from adverse changes in market conditions and establishing appropriate margin and collateral requirements.

The sensitivity analyses in the following sections relate to the position as of December 31, 2014 and 2013.

Foreign currency risk

As a result of significant borrowings and accounts payable denominated in the US Dollars, the Group's consolidated statement of financial position can be affected significantly by movement in the US Dollar / tenge exchange rates. The Group also has transactional currency exposures. Such exposure arises from revenues in the US Dollars. Approximately 76% of the Group's revenue is denominated in the US Dollars, whilst 53% of cost of sales is denominated in tenge (2013: 66% and 47%, respectively).

The Group has a policy on managing its foreign currency risk in US Dollar by matching US Dollar denominated financial assets with US Dollar denominated financial liabilities and/or by designating hedge between non-financial assets and financial liabilities.

33. *FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES* (continued)

Market risk (continued)

Foreign currency risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar exchange rate, with all other variables held constant, of the Group's profit before income tax (due to changes in the fair value of monetary assets and liabilities). The sensitivity of possible the changes in exchange rates for other currencies are not considered due to its insignificance to the consolidated financial results of Group's operations.

In thousands of tenge	Increase / decrease in tenge to US Dollar exchange rate	Effect on profit before tax
2014	**+17%**	**(286,497,750)**
	-17%	**299,270,177**
2013	+30%	(274,547,604)
	+10%	(89,386,085)

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term borrowings with floating interest rates.

The Group's policy is to manage its interest rate cost using a mix of fixed and variable rate borrowings.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before income tax (through the impact on floating rate borrowings) and equity. There is no significant impact on the Group's equity.

In thousands of tenge	Increase / decrease in basis points	Effect on profit before tax
2014	**+0.02%**	**(227,231)**
LIBOR	**-0.02%**	**227,231**
2013		
LIBOR	+0.03%	(987,439)
	-0.03%	987,439

Credit risk

The Group trades only with recognized, creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The maximum exposure is the carrying amount as disclosed in *Note 15*. There are no significant concentrations of credit risk within the Group.

With respect to credit risks arising on other financial assets of the Group, which comprise cash and cash equivalents, bank deposits, trade accounts receivable, bonds receivable, loans and notes receivable and other financial assets, the Group's exposure to credit risks arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

The table below shows the balances of major subsidiaries' cash and cash equivalents, short-term and long-term deposits (*Notes 11, 16* and *17*) held in banks at the reporting date using the Standard and Poor's and Fitch's credit ratings.

		Rating[1]			
Banks	**Location**	**2014**	**2013**	**2014**	**2013**
Citibank	United Kingdom	A (stable)	A (stable)	**368,971,316**	28,612,864
Halyk Bank	Kazakhstan	BB+ (stable)	BB (stable)	**263,903,923**	312,879,998
Kazkommertsbank	Kazakhstan	B (negative)	B2 (negative)	**170,927,229**	255,323,932
Tsesnabank	Kazakhstan	B+ (stable)	B (stable)	**165,156,275**	47,366,371
Deutsche Bank	the Netherlands and the United Kingdom	A (negative)	A (stable)	**120,652,963**	112,656,657
BNP Paribas	United Kingdom	A+ (negative)	A+ (negative)	**91,377,852**	82,581,066
ING Bank	The Netherlands	A (negative)	A (stable)	**81,680,729**	71,087,600
Eurasian Bank	Kazakhstan	B+ (stable)	BBB (stable)	**61,427,709**	50,856,342
Sberbank of Russia	Kazakhstan	BBB- (negative)	B- (stable)	**54,125,325**	48,687,946
RBK Bank	Kazakhstan	B- (positive)	B- (stable)	**42,997,088**	6,477,770
HSBC	United Kingdom	AA- (negative)	BBB (stable)	**33,789,687**	29,533,549
ATF Bank	Kazakhstan	B- (stable)	BBB (negative)	**17,828,090**	55,113,895
Citibank	Kazakhstan	A (stable)	A (stable)	**12,864,542**	44,422,490
Credit Suisse	British Virgin Islands	A (negative)	A (stable)	**11,438,825**	8,205,790
BankCenterCredit	Kazakhstan	B+ (stable)	B+ (stable)	**6,837,027**	34,084,225
RBS Kazakhstan	Kazakhstan	A- (negative)	A- (negative)	**3,641,113**	5,137,852
Alliance Bank	Kazakhstan	B (stable)	CCC (negative)	**1,059,854**	10,118,770
KazInvestBank	Kazakhstan	B- (stable)	B- (stable)	**912,849**	6,588,679
Kaspi Bank	Kazakhstan	BB- (stable)	BB- (stable)	**1,600**	2,331,983
HSBC	Kazakhstan		BB+ (stable)	**–**	14,134,588
Other banks				**101,483,696**	71,616,934
				1,611,077,692	1,297,819,301

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet commitments associated with its financial liabilities. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any commitments as they arise.

[1] Source: Interfax – Kazakhstan, Factivia, official sites of the banks as at December 31 of the respective year

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at December 31, 2014 and 2013 based on contractual undiscounted payments.

In thousands of tenge	On demand	Due later than *one month but* not later than three months	Due later than *three month* but not later than one year	Due later than *one year but* not later than five years	Due after 5 years	Total
As at December 31, 2014						
Borrowings	**16,659,704**	**382,716,017**	**358,818,660**	**1,206,579,221**	**2,597,740,927**	**4,562,514,529**
Payable for the acquisition of additional interest in North Caspian Project	**–**	**–**	**–**	**445,245,960**	**–**	**445,245,960**
Trade accounts payable	**153,952,357**	**64,440,312**	**15,261,065**	**–**	**–**	**233,653,734**
	170,612,061	**447,156,329**	**374,079,725**	**1,651,825,181**	**2,597,740,927**	**5,241,414,223**
As at December 31, 2013						
Borrowings	49,531,576	90,588,885	274,420,387	1,337,782,238	1,586,834,979	**3,339,158,065**
Payable for the acquisition of additional interest in North Caspian Project	–	–	120,040,849	253,665,875	–	**373,706,724**
Trade accounts payable	89,246,239	95,487,790	39,893,263	464,320	–	**225,091,612**
	138,777,815	**186,076,675**	**434,354,499**	**1,591,912,433**	**1,586,834,979**	**3,937,956,401**

Capital management

The Group manages its capital to ensure that Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2007.

The capital structure of the Group consists of borrowings disclosed in *Note 19* and equity, comprising share capital, additional paid-in capital, other reserves and retained earnings as disclosed in *Note 18*.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to net capitalization ratio of no more than 50%.The ratio as at December 31 was as follows:

In thousands of tenge	2014	2013
Borrowings (*Note 19*)	**3,097,720,407**	2,307,142,850
Payable for the acquisition of additional interest in North Caspian Project (*Note 20*)	**396,345,201**	322,329,783
Financial guarantee	**9,077,566**	–
Other liabilities composing net debt	**970,382**	1,657,424
Debt	**3,504,113,556**	2,631,130,057
Less: Cash and cash equivalents and short-term bank deposits	**(1,516,910,928)**	(1,216,480,171)
Net debt	**1,987,202,628**	1,414,649,886
Net capitalization *	**5,894,612,547**	4,864,285,786
Net debt to net capitalization	**34%**	29%

* Net capitalization is net debt plus equity attributable to equity holder of the Parent Company as at December 31 of the respective year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. FINANCIAL RISK MANAGEMENT, OBJECTIVES AND POLICIES (continued)

Fair values of financial instruments and investment property

The carrying amount of the Group financial instruments as at December 31, 2014 and 2013 are reasonable approximation of their fair value, except for the financial instruments disclosed below:

	2014				
	Carrying amount	Fair value	Fair value by level of assessment		
In thousands of tenge			Quotations in an active market *(Level 1)*	From the observed *market (Level 2)*	Based on the significant amount of unobserved *(Level 3)*
Bonds receivable from the Parent Company	**41,585,896**	**74,754,137**	**–**	**74,754,137**	**–**
Fixed interest rate borrowings	**2,284,707,172**	**2,306,596,659**	**1,937,379,432**	**369,217,227**	**–**
Financial guarantee	**9,077,566**	**9,077,566**	**–**	**9,077,566**	**–**
Derivatives, net	**6,149,586**	**6,149,586**	**–**	**6,149,586**	**–**
Investment property	**27,197,634**	**31,514,534**	**–**	**31,514,534**	**–**

	2013				
	Carrying amount	Fair value	Fair value by level of assessment		
In thousands of tenge			Quotations in an active market (Level 1)	From the observed market (Level 2)	Based on the significant amount of unobserved (Level 3)
Bonds receivable from the Parent Company	41,362,676	74,068,954	–	74,068,954	–
Fixed interest rate borrowings	1,638,355,440	1,854,074,777	1,551,244,292	302,830,485	–
Derivatives, net	441,058	441,058	–	441,058	–
Investment property	28,243,320	31,126,069	–	31,126,069	–

The fair value of bonds receivable from the Parent Company and fixed-rate borrowings have been calculated by discounting the expected future cash flows at market interest rates.

During the reporting period no transfers between Level 1 and Level 2 of the fair value assessment were made.

34. CONSOLIDATION

The following significant subsidiaries have been included in these consolidated financial statements:

Significant entities	Main activity	Country of incorporation	Percentage ownership 2014	2013
KazMunayGas Exploration Production JSC and its subsidiaries ("EP KMG")	Exploration and production	Kazakhstan	**63.21%**	63.22%
KazTransGas JSC and its subsidiaries ("KTG")	Gas transportation	Kazakhstan	**100.00%**	100.00%
KazTransOil JSC and its subsidiaries	Oil transportation	Kazakhstan	**90.00%**	90.00%
KazMunayGas – refining and marketing JSC and subsidiaries	Refinery and marketing of oil products	Kazakhstan	**100.00%**	100.00%
KazMunayTeniz JSC and its subsidiaries ("KMT")	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMunayGas-Service LLP and its subsidiaries	Service projects	Kazakhstan	**100.00%**	100.00%
Cooperative KazMunayGas PKI U.A. and its subsidiaries	Exploration and production (KMG Kashagan B.V.) and refinery and marketing of oil products (KMG International N.V.)	Netherlands	**100.00%**	100.00%
N Operating Company LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KMG Systems and Services LLP	Support services	Kazakhstan	**100.00%**	100.00%
Kazakhstan Pipeline Ventures LLC and associate	Oil transportation	the United States of America	**100.00%**	100.00%
KMG Karachaganak LLP	Exploration and production	Kazakhstan	**100.00%**	100.00%
KazMorTransFlot JSC	Oil transportation and construction	Kazakhstan	**100.00%**	100.00%
Aktaunefteservice LLP	Oil support services	Kazakhstan	**100.00%**	100.00%

35. CONTINGENT LIABILITIES AND COMMITMENTS

Environment

Environmental regulations in Kazakhstan are evolving and subject to ongoing changes. Penalties for violations of Kazakhstan's environmental laws can be severe. Potential liabilities which may arise as a result of stricter enforcement of existing regulations, civil litigation or changes in legislation cannot be reasonably estimated. Management believes that, other than those accrued and disclosed below in these consolidated financial statements, there are no further probable or possible environmental liabilities which could have a material adverse effect on the Group's consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows other than those amounts provided in *Note 21*.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Environment (continued)

ANPZ environmental audit (KMG RM)

In 2014, the Department of ecology of Atyrau oblast has ordered Atyrau Refinery LLP ("ANPZ"), a subsidiary of KMG RM, to pay an environmental fine of 23.7 billion tenge. The Atyrau regional prosecutor's office (the "TARPO") and the regional environmental department conducted a joint inspection at ANPZ and determined that ANPZ flared 693,753 cubic meters of sour gas without necessary permits. As a result of the inspection, ANPZ was ordered to pay a fine for the environmental damage caused by the unauthorized gas flaring. Two court hearings were held during 2014, both of which were in favour of ANPZ. Management of the Group assesses the risk related to this matter as possible and no provision has been accrued as at December 31, 2014.

OMG environmental audit 2012-2013 (KMG EP)

On January 24, 2014 JSC "Ozenmunaigas", a subsidiary of KMG EP, received a notification from the Department of Ecology of Mangystau Region to pay a fine of 212,625 million Tenge for environmental damage caused by the disposal of excessive waste to the environment in 11 waste collectors. The total amount was determined as a result of an inspection that covered 2012 and 2013. These wastes have historical origins. According to the current legislation of the Republic Kazakhstan, the environmental permit is issued for a newly formed and disposed waste.

In accordance with the above, on February 7, 2014 JSC "Ozenmunaigas" filed a claim and on February 21, 2014 Specialized Administrative Court of Mangystau region satisfied in full in favor of KMG EP. This decision is not appealable, but may be challenged by the General Prosecutor offices. In addition, on February 19, 2014 the Department of Ecology of Mangystau Region claimed an administrative fine for environmental damage of 327,880 million Tenge. JSC "Ozenmunaigas" appealed the claim in the Specialized Interdistrict Economic Court of Mangystau Region that concluded on March 6, 2014 that the act of inspection was illegal and the administrative fine was fully cancelled. On April 22, 2014 the Judicial Panel of Appeals of Mangystau Regional Court rejected an appeal of the Department of Ecology of Mangystau Region against the decision of the Specialized Interdistrict Economic Court of Mangystau Region. On June 25, 2014 by the resolution of the Judicial Panel of Cassation of Mangystau Regional Court, decisions of Specialized Administrative Court of Mangystau region dated on March 6, 2014 and the Judicial Panel of Appeals of Mangystau Regional Court dated April 22, 2014, were upheld. Management of the Group believes that JSC "Ozenmunaigas" will successfully defend its position in further appeals by the Ecology Department on this matter, and therefore no provision was accrued for this matter as at December 31, 2014

Commodity price risk

The Group generates most of its revenue from the sale of commodities, primarily crude oil and oil products. Historically, the prices of these products have been volatile and have fluctuated widely in response to changes in supply and demand, market uncertainty, the performance of the global or regional economies and cyclicality in industries.

Prices may also be affected by government actions, including the imposition of tariffs and import duties, speculative trades, an increase in capacity or an oversupply of the Group's products in its main markets. These external factors and the volatility of the commodity markets make it difficult to estimate future prices.

A substantial or extended decline in commodity prices would materially and adversely affect the Group's business and the consolidated financial results and cash flows of operations. The Group does not hedge significantly its exposure to the risk of fluctuations in the price of its products.

Insurance matters

The insurance industry in the Republic of Kazakhstan is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The Group does not have coverage for its plant facilities, business interruption, or third party liability in respect of property or environmental damage arising from accidents on Group property or relating to Group operations. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and consolidated financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation

Kazakhstan's tax legislation and regulations are subject to ongoing changes and varying interpretations. Instances of inconsistent opinions between local, regional and national tax authorities are not unusual. The current regime of penalties and interest related to reported and discovered violations of Kazakhstan's tax laws are severe. Penalties are generally 50% of the taxes additionally assessed and interest is assessed at the refinancing rate established by the National Bank of the Republic of Kazakhstan multiplied by 2.5. As a result, penalties and interest can amount to multiples of any assessed taxes. Fiscal periods remain open to review by tax authorities for 5 (five) calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Because of the uncertainties associated with Kazakhstan's tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued at December 31, 2014.

As at December 31, 2014, Management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax positions will be sustained, except as provided for or otherwise disclosed in these consolidated financial statements.

Tax audit of KMG EP

As a result of the limited scope tax audit conducted in February 2014 the final notification of 2006-2008 tax audit was issued by the Tax Committee of the Ministry of Finance in March 2014. Total tax assessments amounted to 12,136 million Tenge, including 4,568 million Tenge of principal, 4,645 million Tenge of administrative fines and 2,923 million Tenge of late payment interest.

Cassation panel procedure required KMG EP to pay 12,136 million Tenge in order to have the right to appeal to the Supreme Court by July 2015. KMG EP is planning to appeal to the Supreme Court of the Republic of Kazakhstan within the stated period and correspondingly paid the above amount in October of 2014.

In September 2014 a complex tax audit covering the period of 2009-2012 was initiated. On December 26, 2014 and December 30, 2014 KMG EP received notifications for the above mentioned periods with respect to local taxes related to Ozenmunaigas and Embamunaigas Production Branches, respectively. The tax authorities have claimed to pay 496 million Tenge of various local taxes and 437 million Tenge of administrative fines and late payment fees. As of the date of these consolidated financial statements KMG EP has not received final notification.

Turgai Petroleum comprehensive tax audits (KMG EP)

In September to December 2013, Kyzylorda Tax department of the Tax Committee of the Ministry of Finance (the "Tax department") conducted a complex tax audit of Turgai Petroleum (50% joint venture of PKI) for 2009-2012. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 3,562 million Tenge including transfer pricing effect of 2,733 million Tenge, additional excess profit tax of 8,793 million Tenge including transfer pricing effect of 5,275 million Tenge, additional other taxes of 117 million Tenge and aggregate late payment interest of 5,228 million Tenge.

Turgai Petroleum disagreed with the complex tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. Management of PKI believes that Turgai Petroleum has a strong position on this issue except for the transfer pricing effect of 8,008 million Tenge and related late payment interest of 3,568 million Tenge. Therefore PKI recognized a provision of 5,788 million Tenge (the Group's share is 1,910 million Tenge) in its financial statements.

Mineral extraction tax (KMG EP)

On July 2, 2013 the Tax Committee of Yessil district of Astana provided a notification to KMG EP of 8,785 million Tenge for alleged discrepancies between data reported in KMG EP's MET tax returns and data supplied by the Ministry of Oil and Gas of the Republic of Kazakhstan for the period from 2009 to 2012. These alleged discrepancies were caused by the fact that the sliding rates of tax in 2012 MET tax returns were determined based on volumes of production for the period when subsoil use contracts belonged to KMG EP (when KMG EP carried out its activities on the license area through its production branches), whereas the information provided by the Ministry of Oil and Gas of the Republic of Kazakhstan included production volumes of KMG EP and its subsidiaries JSC "Ozenmunaigas" and JSC "Embamunaigas" combined.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Taxation (continued)

Mineral extraction tax (KMG EP)

According to the tax authorities, for the purposes of determination of the sliding tax rate KMG EP should have included production volumes of JSC "Ozenmunaigas" and JSC "Embamunaigas" as well, even though transfer of subsoil use contracts took place during 2012. However, based on norms stipulated in the Kazakh tax legislation KMG EP believes that the MET rate should be determined based upon production for the period when it directly owned the subsoil use contracts.

KMG EP disagrees with the above notification and has provided the written explanations of its position. The tax authorities have not yet audited KMG EP on this matter and hence no tax assessment was done yet. Should the tax authorities audit KMG EP and assess additional MET liabilties, KMG EP will appeal such assessment. As management believes that it is more likely than not that KMG EP will be successful in its appeal, no provisions in relation to this matter have been made in the consolidated financial statements as at December 31, 2014.

PetroKazakhstan Kumkol Resources JSC (PKKR) comprehensive tax audit (KMG EP)

In September 2013 the Tax department initiated a complex tax audit for 2009-2012 of PKKR (100% subsidiary of PKI). On April 16, 2014 the Tax department issued the Act and notification on the result of the complex tax audit. As a result of the complex tax audit the Tax department assessed additional corporate income tax of 2,676 million Tenge, additional excess profit tax of 4,775 million Tenge, additional other taxes of 66 million Tenge and aggregate penalty of 2,521 million Tenge, wherein the amount of the mineral extraction tax is reduced by 499 million Tenge. After several claims and counterclaims the Tax department decreased the assessment by excluding corporate income tax, excess profit tax and related penalties.

As part of complex tax audit for 2009-2012, on January 13, 2014 the Tax department issued a separate notification for environmental emissions for 10,665 million Tenge and related fines and penalties for 8,758 million Tenge.

PKKR disagreed with the thematic tax audit results and filed a claim with the Tax Committee of the Ministry of Finance. PKI management assessed the risk of unfavourable outcome of this claim as probable and recognized a provision for 19,423 million Tenge in its 2013 consolidated financial statements (the Group's share is 6,410 million tenge). In October 2014 PKKR received notification decreasing initial assessment for 4,222 million Tenge. As a result PKKR reversed 4,222 million Tenge and related fine of 1,598 million Tenge in 2014 (the Group's share is 1,921 million tenge).

Tax Assessments received by Rompetrol Rafinare S.A. (KMGI)

Rompetrol Rafinare SA received the results of the tax inspection covering the period 2007-2010 with the total amount of additional tax claims and late payment interest of 15 million US Dollars (2,735,250 thousand tenge).

Both Rompetrol Rafinare and the Romanian tax authorities filed appeals to the Romanian Supreme court of justice. These final appeals are still with the Romanian Supreme court of justice. The Group considers the risk of losses as possible and no provisions relating to this tax assessment were accrued as of December 31, 2014.

Transfer pricing control

Transfer pricing control in Kazakhstan has a very wide scope and applies to many transactions that directly or indirectly relate to international business regardless of whether the transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to transaction participants are related or not. The transfer pricing legislation requires that all taxes applicable to a transaction should be calculated based on market price determined in accordance with the arm's length principle.

The new law on transfer pricing came into effect in Kazakhstan from January 1, 2009. The new law is not explicit and there is little precedence with some of its provisions. Moreover, the law is not supported by detailed guidance, which is still under development. As a result, application of transfer pricing control to various types of transactions is not clearly regulated.

Because of the uncertainties associated with the Kazakhstan transfer pricing legislation, there is a risk that the tax authorities may take a position that differs from the Group's position, which could result in additional taxes, fines and interest at December 31, 2014.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Transfer pricing control (continued)

As at December 31, 2014 management believes that its interpretation of the transfer pricing legislation is appropriate and that it is probable that the Group's positions with regard to transfer pricing will be sustained.

Cost recovery audits

Under the base principles of the production sharing agreements, the Government transferred to contractors the exclusive rights to conduct activities in the subsurface use area, but did not transfer rights to this subsurface use area either to ownership or lease. Thus, all extracted and processed oil (i.e. the hydrocarbons produced) are the property of the Government. Works are carried out on the basis of compensation and the Government pays the contractors not in cash but in the form of the portion of oil production, thereby allowing the contractors to recover their costs and earn profit.

In accordance with the production sharing agreements not all costs incurred by the contractors could be reimbursed. Certain expenditures need to be approved by the authorized bodies. The authorized bodies conduct the cost recovery audits. In accordance with the costs recovery audits completed prior to December 31, 2014 certain amounts of the costs incurred by contractors were assessed as non-recoverable. The parties to the production sharing agreements are in negotiations with respect to the recoverability of those costs.

As of December 31, 2014 the Group's share in the total disputed amounts of the non-recoverable costs is 64,286 million tenge (2013: 53,708 million tenge). The Group and its partners under the production sharing agreements are in negotiation with the Government with respect to the recoverability of these costs.

Convertible debt instrument and related litigations (KMG I)

As at December 31, 2009 the Group had an outstanding balance of 3,353,168 thousand tenge of a convertible debt instrument issued by a significant subsidiary of KMG I – Rompetrol Rafinare S.A. to the Romanian State. The nominal value of liabilities equaled to 570.3 million Euros. The instrument had seven years maturity and expired on September 30, 2010. Fair value of the debt component at the initial recognition was determined as the discounted future contractual cash payments under the instrument. Under the share ownership as at December 31, 2009 the Group would have lost control over Rompetrol Rafinare S.A., if the entire debt instrument was settled at September 30, 2010 by issuance of new shares to the Romanian State, without any further action by KMG I and/or Rompetrol Rafinare S.A.

During the first half of 2010 in order to increase its interest in Rompetrol Rafinare S.A. the Group was required to make a public offer to all shareholders. In August 2010 Rompetrol Rafinare S.A. increased its share capital by issuance of new shares amounting to RON 329.4 million (78 million Euros at the date of subscription), all of which were subscribed and fully paid for by KMGI, further increasing the Group's interest in Rompetrol Rafinare S.A. of these proceeds from the share issuance, during the same month, Rompetrol Rafinare S.A. repaid 54 million Euros (10,463,778 thousand tenge) out of the total debt of 570.3 million Euros in relation to the convertible debt instrument to the Romanian State. In September 2010, Rompetrol Rafinare S.A. paid the last coupon, amounting to 17 million Euros (3,314,915 thousand tenge), leading to a nil balance of the liability component of the convertible debt instrument.

On September 30, 2010 the Extraordinary General Meeting (GMS) of the shareholders of Rompetrol Rafinare S.A. approved the conversion of the unredeemed convertible debt instrument into shares, the corresponding share capital increase and the exact numbers of shares to be received by the Romanian State for the convertible debt it held, calculated based on the exchange rate in force on such date, together with a share premium calculated as a difference of the exchange rate valid on September 30, 2010 and issuance date on September 30, 2003. This resulted in a non-controlling position of the Romanian State in Rompetrol Rafinare S.A. of 44.6959%.

These transactions resulted in a decrease of retained earnings by 113,467,108 thousand tenge and increase of non-controlling interest by 103,003,330 thousand tenge in 2010.

In 2010, the Romanian State, represented by the Ministry of public finance of the Romanian State (MFP), initiated a legal action against the decision of Rompetrol Rafinare S.A. to increase the share capital and convert the convertible debt instrument partially in cash and partially by issuance of shares.

Constanta Tribunal dismissed the Romanian State request: (a) for some of the annulment reasons considering that the Romanian State lacks the capacity to stand trial, arguing that it did not have the capacity of shareholder when such acts were adopted, (b) for some of the annulment reasons considering that they were not grounded.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Convertible debt instrument and related litigations (KMG I) (continued)

Furthermore, on November 17, 2010 the Ministry of public finance of the Romanian State issued a Summons and Forced Execution Title for the amount of RON 2,205,592,436 (for presentation purposes 516.3 million Euros and, at the exchange rate as at December 31, 2010 is 100,797,249 thousand tenge) as a result of the Romanian Authorities disagreement with the decision of the Group to partially settle the instrument by issuance of shares. Rompetrol Rafinare S.A. filed a claim against a forced execution requesting cancelation of the Summons and Forced Execution Title. The hearing of the case had been suspended in June 2012 and could be resumed during one year period, until June 6, 2013.

In addition, on September 10, 2010 the Romanian authorities, represented by The National Agency for Fiscal Administration (ANAF), issued a decision for a precautionary seizure on all the participations held by Rompetrol Rafinare S.A. in its affiliates as well as on all movable and immovable assets of Rompetrol Rafinare S.A. except for inventories. This measure is still in force and being challenged by the Group. As of the reporting date this seizure has not been enforced as the Romanian authorities did not initiate forced execution procedures. Management believes that the enforcement of the seizure by the authorities would not be practicable.

On February 15, 2013, Rompetrol Rafinare S.A. and the Office of State Ownership and Privatisation in Industry (OPSPI), representing the Romanian State, signed a memorandum of understanding whereby they agreed the amiable settlement of the dispute over the conversion of the convertible debt instrument.

On January 22, 2014, the Memorandum of Understanding was approved by the Romanian Government's Decision pursuant to which the Ministry of public finance of Romania was authorized and mandated to pursue all procedural actions required for the withdrawal of the claims and the termination of all litigations. The Memorandum of Understanding includes the following key aspects:

- OPSPI will sell and the Group will acquire shares owned by OPSPI and representing 26.6959% of RRC's share capital for a cash consideration of 200 million US Dollars (36,470 million tenge);
- The Group will consider investment in energy projects related to its core activities in the amount estimated at 1 billion US Dollars (182.4 billion tenge) over 7 (seven) years;
- The Ministry of public finance will drop all cases against the GMS decisions related to the conversion and will cancel the forced execution title.

This court case was closed following the last hearing in March 2014 and the renouncement by the Ministry of finance of Romania.

KMGI submitted to the Romanian authorities a request for the annulment of the seizure. As such the Group's management believes that the seizure of the assets will be removed.

KazMunayGas Trading AG (former – Vector Energy AG) litigations with SC Bioromoil SRL (KMGI)

As of December 31, 20014 and 2013, KazMunayGas Trading AG is engaged in litigations with SC Bioromoil SRL. SC Bioromoil SRL was seeking to recover the costs related to the Romanian customs duties in relation to the sale of biodiesel in 2009 and 2010 and compensation for lost profits. The total amount of claims amounted to 19.1 billion tenge as of December 31, 2014 (2013: 5.1 billion tenge).

As of December 31, 2014 no provision was recorded for this claim as the Group considers the risk as possible.

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Litigation with the Romanian Competition Council (KMGI)

Based on its Decision no. 97/21 December 2011, the Romanian Competition Council (RCC) ruled that an alleged breach of the Romanian Competition Law and of Treaty for the Functioning of the European Union took place on the Romanian market (the allegations concerned an alleged mutual understanding of all major oil players to jointly withdraw from the market a type of fuel ECO Premium in 2008, during the Romanian Petroleum Association – RPA - meetings held in 2007 -2008). As a result, RCC imposed fines to all major players on the Romanian oil market. Rompetrol Downstream was charged for 46.83 million US Dollars.

As at December 31, 2014 22.3 million US Dollars (4,066 million tenge) was paid by Rompetrol Downstream. The payment of the remaining part is rescheduled by the Romanian tax authorities for 60 months.

The Group considers risk of losses as possible and no provisions relating to the remaining part of this litigation has been accrued as of December 31, 2014.

Civil litigation (KMGI)

On October 7, 2014 the Romanian court of appeal partially granted a civil action filed by the Romanian state for the amount of 58.5 million US Dollars (10,668 million tenge) representing damages to be paid to the Ministry of Finance of Romania, plus related legal interest from 5 January 2001 to the actual payment date. Under this civil action Rompetrol SA and individuals are severally held liable.

The decision of this court of appeal may be challenged by way of extraordinary judicial remedies: the appeal for annulment, the revision and the appeal for cassation (the latter even more limited, solely to points of law). The actual *manner in which the enforcement of the decision takes place may also be challenged.*

The Group already submitted the two extraordinary appeals against the decision of the Romanian court of appeal.

The Group considers that the important legal steps have been initiated to challenge the decision of the Romanian court of appeal. Management assessed the risk of losses as possible and no provisions relating to this court decision has been accrued as of December 31, 2014.

Liabilities on reimbursement of PetroChina expenses (KTG-Almaty)

Under the agreement on gas borrowing KTG-Almaty has commitments to PetroChina to reimburse the supported costs and losses incurred by PetroChina due to gas borrowing and its return. During 2014, PetroChina claimed reimbursement on 2, 3, and 4th tranches of gas borrowing totaling 164,226 thousand US Dollars (29,946,588 thousand tenge). The Group analysed recoverable expenses claimed by PetroChina, and recorded a provision in the amount of 73,094 thousand US Dollars (13,328,668 thousand tenge) as of 31 December 2014 (2013: 17,400,818 thousand tenge). Currently, the management of the Group is in the process of negotiations with PetroChina in order to agree on reimbursable amounts.

Kazakhstan local market obligation

The Government requires oil companies in the Republic of Kazakhstan to supply a portion of the products to meet the Kazakhstan domestic energy requirement on an annual basis, mainly to maintain oil products supply balance on the local market and to support agricultural producers during the spring and autumn sowing and harvest campaigns.

Kazakhstan local market oil prices are significantly lower than export prices and even lower than the normal domestic market prices determined in an arm-length transaction. If the Government does require additional crude oil to be delivered over and above the quantities currently supplied by the Group, such supplies will take precedence over market sales and will generate substantially less revenue than crude oil sold on the export market, which may materially and adversely affect the Group's business, prospects, consolidated financial position and results of operations.

In 2014, in accordance with its obligations, the Group delivered 4,137,532 tons of crude oil (2013: 2,898,025 tons), including joint ventures, to the Kazakhstan market.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. CONTINGENT LIABILITIES AND COMMITMENTS (continued)

Russian Federation market obligation

According to an inter-governmental agreement between Kazakhstan and the Russian Federation, Kazakhstan fulfills counter deliveries to the Russian Federation. KMG RM was determined as an operator and the Company was determined as one of the suppliers through governmental quotas. Based on this inter-governmental agreement in September 2014 KMG EP has concluded a contract with KMG RM to supply crude oil to the Russian Federation. The contract was valid till December 31, 2014 without pre-determined volumes. Under this contract KMG EP has supplied 447 thousand tons of crude oil. A contract for 2015 year is not yet concluded. These supplies are additional to the obligation of KMG EP to supply crude oil to the local market.

Commitments under subsoil use contracts

As at December 31, 2014 the Group had the following commitments related to minimal working program in accordance with terms of licenses, production sharing agreements and subsoil use contracts, signed with the Government:

Year	Capital expenditures	Operational expenditures
2015	115,003,681	12,000,365
2016	66,267,145	3,855,462
2017	52,769,128	3,737,602
2018	547,738	3,758,095
2019-2024	346,687	9,466,935
Total	**234,934,379**	**32,818,459**

Other contractual commitments

As at December 31, 2014, the Group had other capital commitments of approximately 832 billion tenge (2013: 641 billion tenge), including joint ventures, related to acquisition and construction of property, plant and equipment.

Non-financial guarantees

As of December 31, 2014 and 2013, the Group has outstanding performance guarantees issued in favour of third parties whereas it provides guarantee should its subsidiary, joint venture or associate fail to perform their obligations under the natural gas purchase-sale, transportation and other agreements.

As of the reporting date the management of the Group believes that there were no cases of non-performance from the guaranteed parties and, accordingly, no obligations related to the above stated non-financial contingencies were recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. SEGMENT REPORTING

Management of the Group analyzes the segment information based on IFRS numbers. Segment profits are considered based on gross profit and net profit results.

The Group's operating segments have their own structure and management according to the type of the produced goods and services provided. Moreover, all segments are strategic directions of the business which offer different types of the goods and serve different markets.

The Group's activity consists of four main operating segments: exploration and production of oil and gas, transportation of oil, transportation of gas, refining and trading of crude oil and refined products. The remaining operating segments have been aggregated and presented as other operating segment due to their insignificance.

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2014:

In thousands of tenge	Exploration and production of oil and gas	Oil transportation	Gas trading and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers	18,507,764	189,744,644	327,844,162	2,544,979,005	105,688,115	-	3,186,763,690
Revenues from sales to other segments	(937,020,410)	(41,477,353)	(1,127,883)	(12,712,821)	(21,227,396)	1,013,565,863	-
Total revenue	**(918,512,646)**	**148,267,291**	**326,716,279**	**2,532,266,184**	**84,460,719**	**1,013,565,863**	**3,186,763,690**
Gross profit	**551,279,613**	**106,611,963**	**86,498,709**	**163,238,411**	**6,023,580**	**(49,050,480)**	**864,601,796**
Finance income	22,080,089	6,032,128	3,011,047	4,709,585	39,347,412	(19,689,384)	55,490,877
Finance costs	(23,259,731)	(2,985,958)	(15,862,256)	(19,384,564)	(160,931,406)	19,953,223	(202,470,692)
Depreciation, depletion and amortization	(81,316,793)	(22,750,847)	(29,464,886)	(66,227,053)	(11,435,463)	-	(211,195,042)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(263,595,279)	(11,898,652)	(794,395)	(41,136,515)	(3,780,403)	-	(321,205,244)
Share in profit of joint ventures and associates, net	432,128,755	(3,521,881)	(8,278,379)	7,154,236	374,726	-	427,857,457
Income tax expenses	(69,327,610)	(19,329,265)	(13,129,029)	10,138,423	(25,453,561)	-	(117,101,042)
Net profit for the year	**33,263,422**	**22,071,380**	**(15,567,584)**	**(82,016,726)**	**264,449,400**	**(22,984,800)**	**199,215,092**
Other segment information							
Investments in joint ventures and associates	979,237,624	22,833,273	123,453,073	35,339,132	56,798,298	-	1,217,661,400
Capital expenditures	254,705,669	68,546,853	304,635,661	96,885,519	40,418,424	-	765,192,126
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(3,704,017)	(703,713)	(4,417,914)	(45,623,948)	(3,775,378)	2,120,204	(56,104,766)
Assets of the segment	**4,891,145,676**	**582,719,545**	**1,016,388,070**	**2,148,431,600**	**672,208,055**	**(472,052,077)**	**8,838,840,869**
Liabilities of the segment	**859,017,443**	**135,506,786**	**383,061,495**	**833,462,861**	**2,652,790,651**	**(442,110,802)**	**4,421,728,434**

Eliminations represent the exclusion of intra-group turnovers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. SEGMENT REPORTING (continued)

Inter-segment transactions were made on terms agreed to between the segments that may not necessarily be at market rates, except for certain regulated services, which are provided based on the tariffs available to related and third parties.

The following represents information about profit and loss, and assets and liabilities of operating segments of the Group for 2013:

In thousands of tenge	Exploration and production of oil and gas	Oil transportation	Gas sales and transportation	Refining and trading of crude oil and refined products	Other	Elimination	Total
Revenues from sales to external customers*	29,141,974	175,731,110	287,371,297	2,669,324,082	86,148,343	–	3,247,716,806
Revenues from sales to other segments*	895,270,259	33,142,021	945,892	3,736,918	20,588,878	(953,683,968)	–
Total revenue*	**924,412,233**	**208,873,131**	**288,317,189**	**2,673,061,000**	**106,737,221**	**(953,683,968)**	**3,247,716,806**
Gross profit*	**602,675,190**	**91,241,519**	**78,639,233**	**158,948,887**	**11,279,701**	**(42,898,860)**	**899,885,670**
Finance income*	23,797,011	5,297,069	1,453,037	1,972,448	29,205,935	(19,351,158)	42,374,342
Finance costs*	(24,622,578)	(2,722,023)	(7,307,947)	(14,826,055)	(143,758,250)	21,565,556	(171,671,297)
Depreciation, depletion and amortization*	(63,376,963)	(22,520,263)	(23,727,501)	(60,002,281)	(9,588,484)	–	(179,215,492)
Impairment of property, plant and equipment, exploration and evaluation assets and intangible assets, excluding goodwill	(60,043,694)	(316,451)	(679,953)	(1,211,141)	(231,338)	–	(62,482,577)
Share in profit of joint ventures and associates, net	429,113,313	13,815,015	43,414,989	(3,568,083)	742,156	–	483,517,390
Income tax expenses*	(96,458,552)	(18,502,724)	(16,942,779)	(12,483,231)	(48,812,852)	–	(193,200,138)
Net profit for the year	**256,765,127**	**84,275,215**	**31,964,075**	**(6,606,972)**	**121,513,502**	**731,240**	**488,642,187**
Other segment information							
Investments in joint ventures and associates	760,440,794	27,559,409	141,035,226	23,505,336	45,949,411	–	998,490,176
Capital expenditures	282,839,692	45,871,312	105,649,010	129,046,404	40,449,510	–	603,855,928
Allowances for obsolete inventories, doubtful accounts receivable, advances paid, and other assets	(690,968)	(2,551,226)	(7,571,848)	(38,074,635)	(10,887,657)	–	(59,776,334)
Assets of the segment	**4,366,273,188**	**539,167,807**	**742,891,231**	**1,982,339,326**	**387,696,846**	**(460,182,558)**	**7,558,185,840**
Liabilities of the segment	**791,452,378**	**120,401,132**	**247,331,570**	**686,328,416**	**2,133,653,003**	**(457,171,573)**	**3,521,994,926**

** Certain numbers shown here do not correspond to the consolidated financial statements for year ended December 31, 2013 and reflect adjustments made, refer to Note 5.*

37. SUBSEQUENT EVENTS

On January 21, 2015 the Company redeemed bonds issued at LSE for the amount of 1,500 million US Dollars (273.5 billion tenge) plus the coupon in the amount of 88 million US Dollars (16,047 million tenge).

On February 26, 2015 the Group received a notification from the Tbilisi city court on the seizure of 100% shares of LLC Batumi Oil Terminal, the exclusive management right over 100% shares of LLC Batumi Sea Port and the immovable property of LLC Batumi Oil Terminal. This is as a result of a court application by certain customers of LLC Batumi Sea Port, who has filed a commercial dispute against LLC Batumi Oil Terminal related to uncompetitive behaviour. The total amount claimed is 62 million US Dollars (11,284 million tenge). Management of the Group believes that at this stage it is not practicable to estimate the amount of the loss; however it is limited to the total amount of the court action.